



## OTHER BUDGET OR FISCAL ACTIONS




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### INTRODUCTION

The "Other Budget or Fiscal Actions" section discusses several issues of either statewide or multi-agency fiscal impact. It addresses significant issues contained in HB 2, other cat and dog bills, and/or statutory appropriations, as well as issues not related to any specific legislation. The issues discussed in the next several pages are:

- ?? Other Appropriation Bills - lists and describes appropriations provided in bills other than HB 2
- ?? Fund Balance Adequacy - discusses the ending fund balance and its sufficiency to ensure budget stability and meet unanticipated needs
- ?? Local Government Distributions ("the Big Bill") - is a summary of HB 124, which made significant changes in how local governments are funded
- ?? Status of Tobacco Settlement Funds - provides a summary of total tobacco settlement funds received, anticipated interest collections from the tobacco trust fund established by the electorate, and use of the interest by the legislature
- ?? Public School Funding - lists and describes all action taken by the legislature regarding school funding, and compares 2003 biennium appropriations to the 2001 biennium
- ?? Energy Issues - describes all action taken by the legislature to address both public and private sector energy issues
- ?? Economic Development - provides a description of all action taken by the legislature directly related to economic development, which was one of the Governor's stated priorities
- ?? Department of Commerce Reorganization - describes the effects of SB 445, including creation of the Governor's Office of Economic Development and significant reorganization of the Department of Commerce
- ?? Information Technology Governance – describes legislation that changed the governing structure for state government information technology
- ?? Mental Health Services Interim Study – lists and describes legislation passed by the legislature that arose out of recommendations of the Legislative Finance Committee's 2001 biennium mental health study
- ?? TANF Spending – discusses Temporary Assistance for Needy Families action by the legislature as the program moves into a new phase – FAIM Phase II-R
- ?? POINTS Issues/Operations – POINTS is the Department of Revenue's integrated revenue and tax system, currently in progress. This section describes the status of the project and actions taken by the legislature to address development and implementation issues

## ?? Personal Services Funding

-  State Employee Pay Plan (HB 13) – discusses the state employee pay plan passed by the legislature, which includes both a salary and insurance adjustment component
-  State Employees – FTE Summary – lists state employees per agency, and compares this total to the 2001 biennium
-  Vacancy Savings – describes the vacancy savings enacted by the legislature

## ?? Proprietary Funds and Rate-Setting – lists all programs funded with proprietary funds, and for which the legislature does not set an appropriation, but rather sets the rates the programs can charge




## ?? Long Range Planning Summary – discusses all long-range planning bills, including appropriations and available funds

## ?? Fiscal 2001 Supplemental Appropriations – lists and describes all fiscal 2001 supplemental appropriations provided to state agencies, including fire costs and Medicaid cost overruns

## ?? Fee Changes – lists changes in fees either made by the legislature or assumed in the budgeting process, including Montana University System tuition

## ?? Legislative Interim Studies – lists and describes all interim studies requested by the legislature, from which the Legislative Council will prioritize studies for the 2003 biennium

## ?? Other Major Funds

-  Highways Special Revenue Account – discusses the account through which the state funds highway-related activities, and provides a summary of the cash flow analysis for this and future biennia
-  Resource Indemnity Trust – discusses the status of the trust and the accounts that receive income from either tax or trust interest revenues, including the significant changes made by the 2001 legislature
-  Combined Coal Severance Tax – lists the programs that receive revenue from a portion of the coal severance tax, and how the legislature prioritized and funded those programs

## OTHER APPROPRIATIONS BILLS

The great majority of direct appropriations are made in HB 2, the general appropriations bill. However, other bills can also contain appropriations. The following figure lists all bills in which a separate appropriation was made. The list does not include bills that either established or changed existing statutory appropriations.

Figure 1				
Other Appropriations Bills				
2003 Biennium				
Bill No.	Description	2003 Biennium General Fund	2003 Biennium Other Funds	2003 Biennium Total Funds
<u>Long Range Planning Bills</u>				
HB 5	Capital Projects - Cash	\$0	\$80,815,015	\$80,815,015
HB 6	Renewable Resource Grants	0	4,825,741	4,825,741
HB 7	Reclamation and Development Grants	0	4,100,000	4,100,000
HB 8	Renewable Resource Loans	0	18,956,102	18,956,102
HB 9	Cultural and Aesthetic Grants	523,575	417,555	941,130
HB 10	Oil Overcharge Appropriation	0	653,000	653,000
HB 11	Treasure State Endowment	0	17,730,118	17,730,118
HB 12	Bond Proceeds for Energy Conservation	0	3,550,000	3,550,000
HB 14	Capital Projects - Bonds	0	25,025,286	25,025,286
Total		\$523,575	\$156,072,817	\$156,596,392
<u>Other Appropriations Bills</u>				
HB 13	State Employee Pay Plan	\$31,089,868	\$38,702,050	\$69,791,918
HB 98	Chiropractic Legal Panel Funding Change	0	50,000	50,000
HB 124	Revise Local Government Funding (the Big Bill)	162,484,204	0	162,484,204
HB 144	Legislative Broadcasting Service	0	1,300,000	1,300,000
HB 186	Predator Control	0	50,000	50,000
HB 395	Dental Hygiene Program	119,683	0	119,683
HB 444*	Natural Resource Damage Assessment/Litigation	0	990,000	990,000
HB 447	Marysville Road	0	1,000,000	1,000,000
HB 456	Breast and Cervical Health Program Medicaid	387,810	0	387,810
HB 468	Newborn Hearing Screening/Tracking/Intervention	0	100,000	100,000
HB 516	Game Warden Training Program	0	65,299	65,299
HB 577	Information Technology Systems for Dept. of Justice	0	5,620,000	5,620,000
HB 625	Interim Study of School Funding	20,000	0	20,000
HB 626	State - Fort Belknap Water Compact	50,000	0	50,000
HB 637	Office of Restorative Justice	0	200,000	200,000
SB 191	Specialty License Plate Decals for Organizations	146,010	0	146,010
SB 393	Lewis and Clark License Plates	480,000	0	480,000
SB 495*	Revise State Land Laws to Increase Funding for Trust	0	75,000,000	75,000,000
Total		\$194,777,575	\$123,077,349	\$317,854,924
Total All Bills		\$195,301,150	\$279,150,166	\$474,451,316
*Represent transfers, rather than appropriations.				

The long-range planning bills are discussed in Volume 4, Section F of this report. HB 13 (State Employee Pay Plan), HB 124 (Local Government Funding), and SB 495 (Revise State Land Laws to Increase Funding for Trust) are discussed in separate sections of this volume (SB 495 in the section that discusses education funding). The other bills are discussed in the narratives of the appropriate agencies in either Volume 3 or Volume 4. A short description of these bills follows.

House Bill 98 – The legislature appropriated the anticipated ending fund balance in the account that funds the Chiropractic Legal Panel. The account derives its income from assessments on chiropractic physicians.

House Bill 144 – This bill creates a state government broadcasting service to provide gavel-to-gavel broadcasting of the legislative session. Funds were appropriated to the Legislative Services Division and are derived from an increase in the lobbyist license fee of \$100 (from \$50 to \$150), and from grants, donations, and gifts. Start-up funds will be raised through a general fund loan.

House Bill 186 – General license account funds in the Department of Fish, Wildlife, and Parks were appropriated to increase funding for predator control.

House Bill 395 – General fund was provided to match federal funds and fund establishment of a dental hygiene program at the Great Falls College of Technology.

House Bill 444 – The legislature appropriated a loan from the Coal Tax Permanent Fund to the Department of Justice to continue to pursue the natural resource damage assessment and litigation and remaining damage claims and appeals against ARCO. Repayment would be made from any settlement funds received.

House Bill 447 – Federal funds were appropriated to the Department of Transportation to conduct work on the Marysville secondary highway. The funds are contingent upon provision by the federal government of funding specifically for this purpose.

House Bill 456 – HB 456 provides for Medicaid coverage for persons who have participated in the Montana Breast and Cervical Health Program and who require treatment for breast or cervical cancer. Funding is from the general fund to the Department of Public Health and Human Services to match federal Medicaid funds. The department is requested to consider including funding for this program in the 2005 biennium budget request from tobacco settlement interest funds.

House Bill 468 – HB 468 establishes a newborn hearing screening program. Fund balance from the Montana Telecommunications Access Program fund was appropriated to the Department of Public Health and Human Services to fund acquisition of newborn hearing equipment.

House Bill 516 – General license account funds in the Department of Fish, Wildlife, and Parks were appropriated to allow the department to re-establish its intern program, which employs students from Montana post-secondary education units.

House Bill 577 – This bill authorizes the Department of Justice to obtain a loan from the Board of Investments to finance an information technology system for the Motor Vehicle Division and the acquisition of video gambling automated accounting and reporting system data collection units for the Gambling Control Division. Funding to repay the loan is from an increase in the lien filing fee. The appropriation is to allow expenditure of the loan amount.

House Bill 625 – HB 625 requires the Office of Public Instruction and the Governor's Office to conduct a study of K-12 education funding. The Governor's Office and OPI are charged with conducting the study, while the interim Education Committee is charged with conducting hearings and taking public comment. Funding was provided to OPI and to the Legislative Services Division from the general fund.

House Bill 637 – Up to \$200,000 of state special revenue funds were appropriated to create an Office of Restorative Justice in the Department of Justice, and to promote and provide grants to restorative justice programs. No specific source of funding has been identified. Any federal funds that become available for this purpose would be added via budget amendment.

Senate Bill 191 and Senate Bill 393 – SB 191 allows organizations to sponsor specialty license plates, while SB 393 creates a Lewis and Clark bicentennial license plate. Purchasers of either type of license will pay an additional fee. The appropriated funds are to the Department of Corrections for costs to manufacture the plates, with a small amount for programming costs in the Department of Justice.

## FUND BALANCE ADEQUACY

The economic outlook for Montana is very tenuous. Economic growth in Montana is expected to remain sluggish. In addition, the state's fiscal stability is not immune to economic and political changes, both nationally and globally. General economic factors impacting the slower growth in state revenues during fiscal 2001 include the depression of prices for natural resources and farm products, in addition to the lower business revenues and corporate revenues. Higher energy costs are also taking a toll. The outlook for the 2003 biennium is much less certain, although modest increases are projected for natural resources and farm products.

Attaining general fund budget stability requires more than simply setting appropriations equal to anticipated revenues, with a positive ending fund balance serving as a safety net. The **adequacy** of the state's general fund balance can determine whether or not the state is forced to confront the consequences of fiscal instability. During the 1993 and 1995 biennia, the state held three special legislative sessions to deal with budget shortfalls. And the higher than normal fund balance reserve of \$68 million (3 percent of total expenditures) left by the legislature following the May 2000 Special Session provided a sufficient cushion to deal with the unbudgeted and unanticipated high fire suppression costs as well as high supplemental needs for human services and other programs.

Because of the cost and disadvantages of taking a reactive approach to budget imbalances, the more optimal method is to approach them proactively through provision of adequate fund balance reserves. National fiscal experts, such as the National Conference of State Legislatures (NCSL), recommend a reserve fund balance of 3 to 5 percent of total appropriations or revenues, and a recent survey showed a median general fund balance reserve for all states. Because Montana's budget is implemented on a biennial basis -- resulting in considerably more risk than an annual budgeting process -- the 3 to 5 percent should be applied to biennial totals. For Montana, with a total general fund budget of \$2.8 billion, this equates to an over \$80 million ending fund balance.

Recognizing the economic uncertainties facing the state, the Fifty-seventh Legislature adopted a moderate projected ending general fund balance of \$53.8 million. Since the end of the 2001 session, additional revenues have been identified, the largest portion resulting from one-time audit revenues. The projected 2003 biennium fund balance as of this printing is \$66.7 million (a 2.5 percent reserve). This is considerably improved over the 1 percent or less fund balance reserves that were common prior to the 2001 biennium.

## LOCAL GOVERNMENT FUNDING - HOUSE BILL 124

HB 124, referred to as “the Big Bill” during the 2001 legislative session, dramatically altered the method of collection and distribution of funds to local governments, as well as changes in other relationships between the state and local governments. Beginning in fiscal 2002, HB 124 reallocates revenue received by local governments, school districts, and some state special revenue accounts to the general fund. HB 124 replaces foregone revenue with permanent state entitlement grants to counties and cities, two-year block grants to school districts and countywide school accounts, permanent entitlement grants to tax increment financing districts, and permanent transfers to state special revenue accounts. Each of these payments is from the state general fund. HB 124, in conjunction with SB 339 and SB 176, also requires the state to assume costs of public assistance and child welfare and district courts in each county of the state.

Figure 2 shows a summary of changes in state general fund revenue and expenditures, and the net impact to the general fund as a result of HB 124 in fiscal 2002 and 2003.

Figure 2 HB 124 - Summary of General Fund Revenue and Expenditures			
Revenue or Expenditure Item	Fiscal 2001	General Fund Fiscal 2002	Fiscal 2003
Change in Revenues	\$15,436,750	\$128,419,843	\$133,369,518
Change in Spending (Appropriations and Transfers)			
County & Consolidated Gov't Entitlements	-	41,183,585	28,116,142
City Entitlements	-	43,462,283	44,766,151
Tax Increment Financing (TIF) Districts	-	4,660,430	3,901,981
School District Block Grants *	-	57,197,378	57,197,378
Countywide School Accounts	-	12,734,998	12,831,785
District Court Costs (HB 2 for 2002)	-	800,500	22,522,666
Transfers to State Special Accounts	-	11,939,631	6,326,362
Public Assistance and Child Welfare (HB 2)	-	14,125,365	14,496,164
Other State Agencies	-	237,326	343,935
SB 184 Reimbursements (HB 2)	-	(54,934,392)	(54,934,392)
Other Agencies (HB 2)	-	237,326	343,935
Statutory Appropriations Eliminated	-	(907,000)	(929,000)
Total Changes in Spending	-	130,737,430	134,983,106
Impact of HB 124 on General Fund Balance	<u>\$15,436,750</u>	<u>(\$2,317,586)</u>	<u>(\$1,613,588)</u>
* Biennial appropriations			
County and consolidated government entitlements were calculated by the Department of Revenue on the basis of growth rates of 2.3 percent for counties and 2.65 percent for consolidated governments in each year of the 2003 biennium. The growth rate required in HB 124 is 3 percent per year for each government type for each year of the 2003 biennium.			

## REVENUES

Beginning July 1, 2001, the revenue sources which local governments, school districts, and state special revenue accounts will relinquish are listed below.

- ?? Motor vehicle registration fees, license and decal fees, plate fees, and titling fees
- ?? District court fees, fines and forfeitures (fiscal 2003 only)

- ?? Gambling revenue
- ?? Financial institutions corporation tax
- ?? State aeronautics fees
- ?? Alcohol related taxes
- ?? SB 184 personal property tax reimbursements
- ?? 9 mill levy revenue
- ?? State payments-in-lieu-of tax (PILT) and county land planning grants

Figure 3 shows the change in revenues to the state general fund as a result of HB 124 during the 2003 biennium. The net general fund increase in revenues is expected to be \$15.4 million in fiscal 2001 and \$128.4 million in fiscal 2002 and \$133.4 million in fiscal 2003. The amount in fiscal 2001 is due to one-time accruals of revenue from the financial institutions tax and gambling taxes.

The largest source of revenue is motor vehicle registration and license fees. All fees from all vehicles (except from vehicles registered in multiple states, i.e. International Registration Plan (IRP) vehicles) will be deposited in the state general fund, including those formerly deposited to state special revenue accounts. The revenue from IRP vehicles will be deposited in the highway account.

Two sources of revenue will produce one-time-only impacts -- financial institutions corporation tax, and gambling taxes. In each case, the cause of the one-time revenue is revenue accruals coincident to the

reallocation of revenue from local governments to the state. The financial institutions corporation tax collected by the state during fiscal 2001 would have been distributed to local governments in September 2001 and would have been included in fiscal year-end 2001 as an accrued expenditure. Under HB 124, this payment will not be made and the payable will not be accrued, resulting in a one-time increase in financial institutions corporation tax in fiscal 2001. The state will also accrue one quarter of its share of gambling taxes that will now be distributed to the state general fund at the end of fiscal 2001. The bill mistakenly refers to fiscal 2000 as the starting point for the reallocation of gambling taxes instead of fiscal 2001.

Reductions associated with property taxes are the result of reclassification of motor vehicle revenue and financial institutions corporation taxes. Under old law, these revenue sources were distributed to local governments and the state general fund on the basis of each jurisdiction's mill levy to the total mill levy, and thus were recorded as non-levy components of property tax. These sources will no longer be distributed across mill levies. Instead, financial institutions corporation tax revenue will be recorded as corporation tax revenue, and motor vehicle revenue will be recorded as vehicle tax revenue.

Figure 3  
HB124 General Fund Revenue Impacts

Revenue Source	Fiscal 2001	Fiscal 2002	Fiscal 2003
Beer		\$2,556,000	\$2,668,000
Liquor		1,736,000	1,837,000
Wine		193,000	201,000
Corporation- Financials		8,652,000	8,745,000
Corporation - Financials accrual	8,523,000	-	-
District Court Fees		-	1,940,363
Vehicle Fees		12,801,827	12,801,827
Vehicle FILT		77,318,972	77,554,628
Video Gaming		27,593,000	30,214,000
Video Gaming Accrual	6,913,750	-	-
Prop Tax - Financials		(1,185,277)	(1,182,850)
Prop Tax - Vehicles		(1,594,855)	(1,594,689)
SB448 - 25 cents/Vehicle		320,000	330,000
SB317 Beer Tax		(56,841)	(58,831)
SB48 Beer Tax		12	49
HB519 Video Gambling		86,000	(86,000)
SB48 Wine Tax		<u>5</u>	<u>21</u>
Total General Fund	<u>\$15,436,750</u>	<u>\$128,419,843</u>	<u>\$133,369,518</u>



## STATE ASSUMPTION OF DISTRICT COURTS AND WELFARE

HB 124, in conjunction with SB 176 and SB 339, assumes responsibility for two functions, which under previous law, were mostly performed by counties -- district courts and public assistance and child welfare. Assumption of public assistance and child welfare functions will occur in fiscal 2002, while district court costs assumption will occur fiscal 2003.

HB 124, in conjunction with SB 176, requires the state to operate all district courts. All district court costs will be borne by the state beginning in fiscal 2003, except for costs associated with the clerks of district court and costs associated with maintaining county courthouses. A district court council will be formed to develop and adopt policies and procedures to administer the state funding of district courts. The council members will be appointed by the end of June.

SB 339, in conjunction with HB 124, requires the state to run the public assistance and child welfare systems in each county beginning in fiscal 2002. Currently, the state operates public assistance systems in 13 counties, and requires these counties to levy 9 mills on taxable property. Under the new system, the state assumes costs for public assistance in all 56 counties and abolishes the 9 mill levy assessment. Child welfare is operated by the State in all counties, however, under HB 124 counties will no longer be required to pay part of the administrative and benefit costs.

## ENTITLEMENTS, BLOCK GRANTS, AND TRANSFERS

The entitlements, block grants, and transfers required by HB 124 are shown in Figure 4. A three-fifths vote of each house of the legislature is required to reduce the entitlement shares and/or the entitlement share growth rate. An explanation of each follows.

### Entitlements for Local Governments

HB 124 creates a permanent entitlement grant to counties and cities. The base year entitlement share pool is the sum of the revenue lost by each county and city as measured by the amount of qualified revenue realized in fiscal 2001 less actual fiscal 2001 county expenditures on public assistance and child welfare, and net county expenditures on district courts. In fiscal 2002, the entitlement share pool is the base year entitlement share pool, plus growth, plus fiscal 2001 net county costs for district courts. The last is added since the state will not assume the costs of district courts until fiscal 2003. In fiscal 2003, the entitlement share pool is base year entitlement share pool plus growth for two years.

The entitlement grants to counties, cities, and consolidated local governments (consolidated cities and counties) will increase in the future. For fiscal 2002 and 2003, the entitlement grants will grow by 3 percent each year for all local governments. For years thereafter, the entitlement share pool will increase by a statutorily-defined formula. The formula is 50 percent of the average annual growth rate averaged over 4 previous years (for which data are available) of gross state product, plus 50 percent of the average annual growth rate average over 4 previous years (for which data are available) of personal income. This weighted average annual growth rate is then multiplied by the following for each government type:

- ?? Counties – 54 percent
- ?? Consolidated local governments – 62 percent
- ?? Incorporated cities and towns – 70 percent

Figure 4  
House Bill 124 - Changes in General Fund Appropriations and Transfers

Section	Name	Fiscal 2002	Fiscal 2003
<b><u>Statutory Appropriation Added</u></b>			
[Section 1]	Entitlement Share Payment to Local Governments	\$84,645,868	\$72,882,293
	Tax Increment Financing Districts	<u>4,660,430</u>	<u>3,901,981</u>
Subtotal		89,306,298	76,784,274
<b><u>Statutory Appropriations Eliminated</u></b>			
15-31-702	Distribution of 80% of Corp Tax from Banks to Locals	-	-
16-1-404	Distribution of 34.5% of Liquor Tax to Locals	-	-
16-1-406	Distribution of \$2.00 of Beer Tax to Locals	-	-
16-1-411	Distribution of 10% of Wine Tax to Locals	-	-
19-6-709	Distribution of \$0.25 of Vehicle reg. to HWP Retirement	(320,000)	(330,000)
23-5-610	Distribution of 2/3 of Video Gambling Tax to Locals	-	-
67-3-205	Distribution of 90% of Aircraft Registration to Locals	-	-
77-1-505	County Land Equalization Payments to Locals	<u>(587,000)</u>	<u>(599,000)</u>
Subtotal		(907,000)	(929,000)
<b><u>Appropriations</u></b>			
OPI	School District Block Grants (biennial)	57,197,378	57,197,378
OPI	Countywide School Retirement	10,920,239	11,003,234
OPI	Countywide School Transportation	1,814,759	1,828,551
Judiciary	Reduction in District Courts Statutory Approp	-	-
Judiciary	District Courts	-	<u>22,522,666</u>
Subtotal		69,932,376	92,551,829
<b><u>Transfers</u></b>			
PHHS	Adoption Services Account	-	36,764
DOT	Non-restricted SSR Account	2,873,853	2,916,961
DEQ	Motor Vehicle Recycling and Disposal Program	748,520	759,748
Agriculture	Noxious Weed SSR Account	1,513,425	1,536,126
FWP	Motorboat, Snowmobile, Recreational Vehicles, OHV	405,162	411,239
Military	State Veteran's Cemetery Account	117,908	119,677
Judiciary	District Courts	5,742,983	-
DOT	Senior Citizen Transportation Account (SB448)	268,890	272,923
Justice	Highway Patrol Retirement Benefits	<u>268,890</u>	<u>272,923</u>
Subtotal		11,939,631	6,326,362
<b><u>House Bill 2 Adjustments</u></b>			
DOR	Elimination of Local Government Reimbursements	(54,934,392)	(54,934,392)
OPI	Administration of HB124 Block Grants	37,500	12,500
Higher Ed	Replace Lost 6-mill Revenue	194,088	124,088
Judiciary	State Assumption of District Courts	800,500	-
DofA	Special Purpose District Reports	-	28,446
App Defend	Replace Lost Vehicle Revenue	-	178,901
Justice	Computer Programming	5,738	-
PHHS	Public Assistance	3,852,988	4,006,121
PHHS	Child and Family Services Division	2,206,194	2,241,893
PHHS	Director's Office	93,333	96,915
PHHS	Health Policy and Services Division	6,717,000	6,862,000
PHHS	Quality Assurance Division	211,082	218,916
PHHS	Operation and Technology Division	<u>1,044,768</u>	<u>1,070,319</u>
Subtotal		(39,771,201)	(40,094,293)
Total Change in General Fund Spending		<u>\$130,500,104</u>	<u>\$134,639,171</u>

Growth in the statewide entitlement share for each government type is then allocated to each county, consolidated local government, city, and town on the basis of the following allocation formula:

Beginning in fiscal 2002, the entitlement share for each jurisdiction is the base year entitlement share for each jurisdiction in the pool plus 3 percent growth. Beginning in fiscal 2003, 50 percent of the growth amount is distributed in the same manner as the base year entitlement shares, and 50 percent of the growth is distributed on the basis of the ratio of each jurisdiction's population to the total population for each government type. The non-growth components of the entitlement share pool will be distributed as the entitlements were distributed in the prior year.

The entitlement grants will be distributed on a quarterly basis beginning September 15, 2001.

#### **Entitlement Grants to Tax Increment Financing Districts (TIF's)**

The entitlement grants to non-industrial and industrial TIF's are specified in HB 124 for each TIF in the state. The entitlement grants to non-industrial TIF's are constant and ongoing until the TIF ceases to exist. The entitlement grants to industrial districts are constant for each year of the 2003 biennium, are cut in half for each year of the 2005 biennium, and are eliminated thereafter.

Total biennial entitlement grants to TIF's are \$8.6 million during the 2003 biennium. Payments to non-industrial TIF's must be made one-half in November and one-half in May of each fiscal year. Payments to industrial TIF's must be made one-half in December and one-half in July of each fiscal year.

#### **Block Grants to School Districts**

HB 124 contains appropriations for block grants to school districts and countywide school transportation and retirement accounts for fiscal 2002 and 2003. The biennial appropriation is \$114.4 million to districts and \$25.6 million to countywide accounts.

The amount of each school district block grant in fiscal 2002 will be the sum of: 1) 93.4 percent of fiscal 2001 actual collections of motor vehicle revenue; 2) financial institutions revenue; 3) aeronautics fees; 4) state PILT payments; and 5) SB 184 reimbursements. If the amount calculated for fiscal 2002 is more than one half the appropriated amount of \$114.4 million, then the amount of the block grant for each school district must be prorated in fiscal 2003. If the biennial appropriated amount for school district block grants is more than sufficient to fund twice the sum of the fiscal 2001 revenue amounts foregone, then the fiscal 2003 block grants may grow by no more than 0.76 percent of the fiscal 2002 block grant amount.

Block grants to countywide school accounts are specified in HB 124 for each county. The growth in block grants between fiscal 2002 and fiscal 2003 is 0.76 percent.

Block grants to school districts and to countywide school accounts will continue beyond the 2003 biennium unless altered by the 2003 legislature. If the block grants continue beyond the 2003 biennium, HB 124 requires the average block grant for fiscal 2002 and fiscal 2003 be revised at 0.76 per year in each succeeding year. Furthermore, HB 124 (Section 249) requires the Governor to include the appropriated block grant amounts for the 2003 biennium in the present law budget request for the 2005 biennium.

Block grants to school districts and to the countywide school accounts will be distributed 70 percent in November and 30 percent in May.

**Transfers to State Special Revenue Accounts**

HB 124 eliminates the allocation of many vehicle revenue sources to state special revenue accounts and deposits the funds in the general fund beginning July 1, 2001. To make the accounts whole, HB 124 requires transfers from the general fund to the impacted state special accounts. Figure 4 shows these transfers.

The largest transfer, \$5.8 million during the 2003 biennium, is to the Department of Transportation. Under old law, the highway account would have received approximately \$16 million per biennium in Fee-In-Lieu-of-Tax (FILT) revenue from the sale of newly manufactured vehicles. HB 124 requires the deposit of this revenue in the general fund beginning July 1, 2001.

Under HB 124, the highway account will receive license and FILT revenue from IRP vehicles. IRP vehicles are primarily large trucks registered in many states. Revenue from these trucks under old law was deposited in the respective county general fund. In addition to the \$9.0 million per biennium in IRP revenue, the highway account will receive a \$5.8 million transfer from the state general fund plus \$0.8 million per biennium in vehicle registration fees formerly retained by the counties. These fees represented 5 percent of all vehicle registration fees kept by counties for administrative purposes.

Total new highway account revenues will be \$15.6 million during the 2003 biennium, or \$0.4 million less than what the account would have received under old law. The general fund transfer to the highway account will increase by 1.5 percent per year in the future.

The next largest transfer is to the district court account for fiscal 2002 only. This account is eliminated in fiscal 2003 under SB 176. Under old law, this account would have received 10 percent (\$5.7 million per year) of all FILT revenue on light vehicles. However, HB 124 eliminates the 10 percent allocation to the district court account beginning July 1, 2001 and requires the deposit of this money in the general fund. In order to supply the district court account sufficient funds for operation during fiscal 2002, \$5.7 million was transferred from the general fund to the district court account for one year.

Many smaller transfers are also required by HB 124, including: 1) the noxious weed account (for loss of the vehicle weed fee); 2) the junk vehicle account (for loss of the junk vehicle fee); 3) the FWP recreational vehicle account (for loss of registration fees); 4) adoption services account (for loss of district court adoption fees); 5) the veteran's cemetery account (for loss of veterans' vehicle plate fee); 6) the Highway Patrol retirement account (for loss in vehicle registration fees); and 7) the senior citizens transportation account (for loss of \$0.25 from each new plate fee). The total of these additional transfers from the general fund is \$6.7 million for the 2003 biennium. Except for the transfer to the adoption services account, these transfers are based on the fee rate formerly received by the account, times the current number of vehicles to which the fee was formerly applied. The transfer to the adoption services account of \$36,764 in fiscal 2003 is required to grow at 10 percent per year in the future.

**LOCAL BUDGETING/LOCAL MILL LEVIES**

Under old law, local governments are allowed, without voter approval, to set their mill levies based on last year's revenues and the current year's taxable value (less the value generated by newly taxable property). This is commonly referred to as the "float" implemented under SB 184 of the 56<sup>th</sup> Legislature. Local governments often increased mills to the maximum level since it was "use it or lose it." HB 124 contains language allowing local governments to carry forward maximum budget authority

in an attempt to keep mills from floating every year. This provision, while providing local governments the opportunity for fiscal responsibility, may be difficult to monitor in future years.

HB 124 also provides a growth factor in determining the maximum property tax revenues local governments can utilize without voter approval. Governments will be allowed to increase maximum property tax revenues by one-half the average rate of inflation over the past three years. For jurisdictions with increasing taxable value, this new provision, as well as the ability to take advantage of the revenue from newly taxable property, may increase upward pressure on property tax revenue. For jurisdictions with declining taxable values, the property tax revenue adjustment of one-half the inflation rate may partially or wholly offset the loss in taxable value.

## MISCELLANEOUS PROVISIONS

Statutory mill levy caps for many local government funds have been removed. In most circumstances, this should not result in increased taxes. It only allows local government the opportunity to increase budgets outside the mill levy cap either through growth or voter approval. These caps actually imposed disparities among jurisdictions due to large differences in the value of a mill. For example, the current statutory levy cap for mosquito districts is 2 mills. In Treasure County, 2 mills generates approximately \$4,000, whereas in neighboring Big Horn County, 2 mills generates over \$50,000.

The bill also changes collection of certain fees: 1) hail insurance; 2) livestock per capita; and 3) fire suppression. The Department of Revenue will begin billing and collecting for these fees rather than the county. These fees were typically included in the taxpayer's property tax bill. In addition, the Department of Revenue will replace the State Treasurer as the collector of all county revenue remitted to the state.

## IMPLEMENTATION ISSUES

Several implementation issues in HB 124 will need to be resolved. An abbreviated list of these issues follows.

- ?? Video Gaming – HB 124 terminates the distribution of video gaming revenue to local governments on April 1, 2000. The correct date should have been April 1, 2001
- ?? Entitlement Growth Rates – HB 124 requires an entitlement share growth rate of 3 percent for all local governments for fiscal 2002 and fiscal 2003. In the numerical information given to the legislature, and included in the fiscal note accompanying HB 124, the growth rate for the entitlement share for counties was 2.3 percent per year. The numbers in figures 1 through 3 have been calculated at the lower growth rate
- ?? District Court Fees – HB 124 includes reimbursement to local government for the loss of district court fees beginning in fiscal 2002. The redistribution of district court fees will not take place until fiscal 2003, as per SB 176. The numbers in figures 1 through 3 assume the entitlement share for fiscal 2002 does not include district court fees
- ?? Adoption Services Fee – In HB 124, the revenue from the adoption services fee (\$36,764) is deposited in the general fund, but in SB 176 it is deposited in the adoption services account. Because of a lack of coordination between HB 124 and SB 176, the state special adoption services account will receive the adoption services fee in addition to receiving a general fund appropriation in HB 2 for the same amount. In figures 1 through 3, general fund appropriations include the HB 2 appropriation

- ?? The entitlement shares contain reimbursement to local governments for certain fees which local governments will retain. These include ownership fees on manufactured homes, late vehicle filing fees, single movement fees related to roads, and state county land planning grants. In figures 1 through 3, the entitlement share amounts and the general fund revenue include all these fees, except for the state county land planning payments
- ?? The entitlement shares do not contain reimbursements for certain fees which local governments will no longer receive. These include aircraft FILT, custom combine fees and fees and bond forfeiture related to highway use. These fees have been included in the revenue estimates in figures 1 through 3
- ?? Motor vehicle revenue – HB 124 does not amend the distribution of vehicle revenue in the manner represented to the legislature during consideration of the bill. In the numbers presented to the legislature, **all** the revenue from all vehicles was assumed deposited in the state general fund. HB 124 deposits, in the general fund, only the revenue from the FILT on **newly manufactured** light vehicles, motor homes, motorcycles, buses, heavy trucks, and truck tractors. It is silent on the distribution of FILT revenue on older vehicles, as well as on travel trailers, campers, and other trailers. In addition, no distribution of permanent registration fees on light vehicles is made. The numbers in figures 1 through 3, include the FILT revenue from all vehicles in the general fund

## STATUS OF TOBACCO SETTLEMENT FUNDS

Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 25 subsequent companies to end a four-year legal battle with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities). The total amount of tobacco settlement funds available to Montana is affected by a number of factors, such as inflation and sales volume changes.

Due to passage of Montana Constitutional Amendment 35 in November 2000 (Article XII, Section 4, of the Montana Constitution), the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund (the remainder of the money is deposited into the general fund). The legislature did not pass a statute establishing the percentage of tobacco settlement proceeds to be deposited to the trust fund, so the Constitutional minimum applies and 40 percent will be deposited to the trust. Ten percent of interest earnings are deposited to the trust fund, while 90 percent of interest earnings are deposited to a state special revenue account for uses specified in the Constitution. Those uses include: 1) tobacco prevention and disease control programs; and 2) programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana. The legislature may appropriate the principal of the trust by a vote of two-thirds of the members of each house. Trust fund principal and interest earnings may not be used to replace or supplant state or federal money used to fund tobacco disease prevention programs and state programs providing health care benefits, services or coverage that existed on December 31, 1999. Figure 5 shows the total amount of money Montana has received and is expected to receive from the tobacco settlement by fiscal year and the distribution between the general fund and the tobacco settlement trust fund.

Figure 5  
Tobacco Settlement Distribution  
Legislative Revenue Estimates

Fiscal Year	General Fund	Trust Fund	Total Collections
2000 Actual	\$34,804,411	\$0	\$34,804,411
2001 Estimate	15,677,400	10,451,600	26,129,000
2002 Estimate	18,924,600	12,616,400	31,541,000
2003 Estimate	<u>19,147,200</u>	<u>12,764,800</u>	<u>31,912,000</u>
Totals	\$88,553,611	\$35,832,800	\$124,386,411

Figure 6 shows the total amount of estimated interest earnings from the trust fund and the split between the 90 percent that can be appropriated and the 10 percent that must be deposited to the trust. The legislature accepted the executive recommendation to appropriate \$3.1 million in tobacco interest income, \$130,027 more than is estimated to be available, for rate increases for Medicaid health care providers. The legislature added language to HB 2 indicating that if the tobacco settlement trust fund interest income is insufficient to fully fund the state appropriations for provider rate increases, the legislature intends that the department find alternative funding sources to fully fund the rate increases.

Figure 6  
Tobacco Settlement Trust Interest  
Legislative Revenue Estimates

Fiscal Year	90% of Interest	10% of Interest	Total Interest
2000 Actual	\$0	\$0	\$0
2001 Estimate	202,500	22,500	225,000
2002 Estimate	939,600	104,400	1,044,000
2003 Estimate	<u>1,784,700</u>	<u>198,300</u>	<u>1,983,000</u>
Total Interest	\$2,926,800	\$325,200	\$3,252,000
Total Appropriation	<u>\$3,056,827</u>		
Appropriation Over (Under) Revenue	<u>\$130,027</u>		

## PUBLIC SCHOOL FUNDING

### INTRODUCTION

The Fifty seventh Legislature in HB 2 increased total state aid to K-12 districts<sup>1</sup> by \$36.8 million over present law amounts for the 2003 biennium. As shown in Figure 7, BASE aid was increased by \$25.8 million (HB 121) and by an additional \$0.9 million (SB65), the state special education appropriation was increased by \$1.0 million (HB 2), school facility reimbursements were increased by \$1.1 million (HB 2), and spending for school technology was increased by \$2.9 million (HB 41). In addition, the legislature created a new state school flexibility account from which \$5.1 million is appropriated to school districts in fiscal 2003 (SB 390).

Figure 7 HB2 Appropriations to K-12 School Districts							
Account	Fiscal 2002			Fiscal 2003			Biennial Change
	Present Law	New Law	Change	Present Law	New Law	Change	
<b>General Fund</b>							
BASE Aid (HB121 & HB2 & SB65)	\$431.98	\$440.78	\$8.80	\$425.94	\$443.89	\$17.95	\$26.74
Special Education (HB2)	33.90	33.90	-	33.90	34.92	1.02	1.02
School Facility Reimbursements (HB2)	4.00	4.35	0.35	4.00	4.70	0.70	1.05
Other General Fund (HB2)	<u>13.67</u>	<u>13.70</u>	<u>0.02</u>	<u>13.78</u>	<u>13.80</u>	<u>0.02</u>	<u>0.05</u>
Total General Fund	<u>\$483.55</u>	<u>\$492.72</u>	<u>\$9.17</u>	<u>\$477.62</u>	<u>\$497.31</u>	<u>\$19.69</u>	<u>\$28.86</u>
<b>State Special</b>							
Traffic Safety Distribution (HB2)	\$0.75	\$0.75	\$0.00	\$0.75	\$0.75	\$0.00	\$0.00
School Technology Acct-Statutory (HB41)	-	1.25	1.25	-	1.60	1.60	2.85
School Flexibility Account (SB390)	0.00	0.00	0.00	0.00	5.08	5.08	5.08
Total State Special	<u>\$0.75</u>	<u>\$2.00</u>	<u>\$1.25</u>	<u>\$0.75</u>	<u>\$7.43</u>	<u>\$6.68</u>	<u>\$7.93</u>
<b>Total State Distribution to Schools</b>	<u>\$484.30</u>	<u>\$494.72</u>	<u>\$10.42</u>	<u>\$478.37</u>	<u>\$504.74</u>	<u>\$26.37</u>	<u>\$36.79</u>
<b>Federal</b>	<u>\$82.99</u>	<u>\$97.19</u>	<u>\$14.19</u>	<u>\$84.58</u>	<u>\$100.70</u>	<u>\$16.12</u>	<u>\$30.32</u>
General Fund excludes \$5.0 million transfer from general fund to state special flexibility account							
BASE aid appropriations and flex account appropriation in FY 2003 will be made only if SB 495 is not enjoined before April 1, 2002.							
If SB 495 is enjoined before then, BASE aid in FY 2003 will be \$5.6 million less, and the flex account appropriation is void.							

Some of the numbers in Figure 7 do not correspond to numbers presented in the K-12 distribution table on page E-10 of Volume 4, of the Legislative Fiscal Report, 2003 biennium. In particular, the general fund appropriation of \$5 million to the state special flexibility account is not included in Figure 7 (but is included in the table in the education section of Volume 4 of the fiscal report) because to do so would overstate the State's increase in the K-12 distribution to schools. In addition, the table in Volume 4 of the fiscal report contains a present law adjustment that is \$1.9 million higher than assumed in Figure 7.

<sup>1</sup>BASE Aid is the largest component of state aid for school budgets. It consists of direct state aid, Guaranteed Tax Base (GTB) for districts' general fund, and GTB for county teacher retirement accounts. Direct state aid varies directly with the number of students in a district and GTB for both districts and counties varies inversely with respect to taxable wealth per student and nonlevy revenue per student. Whenever entitlements are increased, all else equal, both direct state aid and GTB increase nearly proportionally.

Increasing entitlements increases a district's maximum budget and BASE budget, which is approximately 80 percent of the maximum budget). A district must budget between the BASE budget and the maximum budget unless it was already spending above the maximum budget in fiscal 1993.



The legislature declined to recognize an adjustment for 2003 biennium enrollment declines which were reported to them in March, 2001. Figure 7 assumes these enrollment declines will take place, and the \$1.9 million is included in new law impacts.

Figure 8 shows Average Number Belonging (ANB), a measure of the number of students, for which entitlements and other state funding were budgeted during the session. Compared with fiscal 2001, ANB are expected to decline by 3,117 in fiscal 2002 and by an additional 2,757 in fiscal 2003.

Figure 8 Average Number Belonging (ANB) in Montana Schools						
	Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total
A	1994	111,507		45,443		156,950
A	*1995	114,772	2.9%	47,818	5.2%	162,590
A	1996	114,734	0.0%	49,045	2.6%	163,779
A	1997	114,160	-0.5%	50,582	3.1%	164,742
A	1998	112,449	-1.5%	51,432	1.7%	163,881
A	1999	109,652	-2.5%	51,885	0.9%	161,537
A	2000	107,724	-1.8%	52,022	0.3%	159,746
A	2001	106,014	-1.6%	51,524	-1.0%	157,538
A	2002	103,634	-2.2%	50,787	-1.4%	154,421
E	2003	101,168	-2.4%	50,496	-0.6%	151,664

\* includes for the first time, students who spend more than 1/2 day in special education class  
A = Actual; E = Estimated

## BIENNIAL COMPARISON

The change in spending on K-12 may be viewed differently when compared on a biennial basis. Figure 9 shows actual and authorized spending on K-12 for the 2001 biennium, compared with the amount authorized in the 2003 biennium. Combined state general fund and state special revenue funding will increase by \$15.3 million in the 2003 biennium compared with spending in the 2001 biennium.

The 2001 biennium base from which the biennial change is measured contains a BASE aid supplemental of \$8.9 million, a timber for technology supplemental of \$1.5 million, and a one-time-only appropriation for school technology of \$3.4 million. The appropriations in the 2003 biennium in Figure 3 contain statutory appropriation authority for spending on school technology even though such authority was not in HB 2.

The 2001 biennium base also includes the impact of SB 100 (passed during the 1999 session) and HB 4 (passed during the 2000 special session). In conjunction, these bills increased elementary fiscal 2001 entitlements above fiscal 2000 levels by 6.6 percent and high school entitlements by 4.0 percent.

Federal funding will increase by \$35.7 million for the 2003 biennium compared to the 2001 biennium, due mainly to increases in federal money for special education and school renovation.

Figure 9  
K-12 Appropriations for the 2001 & 2003 Biennium

	Actual Fiscal 2000	Appropriated Fiscal 2001	Appropriated Fiscal 2002	Appropriated Fiscal 2003	Biennial Difference
<b>General Fund</b>					
BASE Aid	\$426.33	\$448.33	\$440.78	\$443.89	\$10.01
Special Education	33.88	33.92	33.90	34.92	1.02
School Facility Reimbursements	3.36	4.14	4.35	4.70	1.55
Timber For Technology	1.42	3.50	-	-	(4.92)
Other General Fund	<u>12.99</u>	<u>14.29</u>	<u>13.70</u>	<u>13.80</u>	<u>0.22</u>
Total General Fund	\$477.97	\$504.17	\$492.72	\$497.31	\$7.88
<b>State Special Revenue</b>					
Traffic Safety Distribution	\$1.00	\$1.00	\$0.75	\$0.75	-\$0.50
School Technology Acct-Statutory	0.00	0.00	1.25	1.60	2.85
School Flexibility Account	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5.08</u>	<u>5.08</u>
Total State Special	\$1.00	\$1.00	\$2.00	\$7.43	\$7.43
<b>Total State Sources</b>	<u>\$478.97</u>	<u>\$505.17</u>	<u>\$494.72</u>	<u>\$504.74</u>	<u>\$15.31</u>
<b>Federal Revenue</b>	<u>\$79.52</u>	<u>\$82.65</u>	<u>\$97.19</u>	<u>\$100.70</u>	<u>\$35.72</u>

## BILLS AFFECTING STATE AND DISTRICT K-12 EXPENDITURES

House Bill 2 provided the appropriations for the 2003 biennium distribution to schools. A number of bills implementing state education spending increases were passed. A summary of the legislative action of the Fifty seventh legislature follows:

House Bill 121 – Increases the elementary and high school basic and per-ANB entitlements by 1.88 percent in fiscal 2002 and by 1.88 percent in fiscal 2003. The increase in fiscal 2003 is contingent upon SB 495 avoiding a legal challenge before April 1, 2002. If SB 495 is enjoined before April 1, 2002, the percent increase in entitlements in fiscal 2003 will be 0.79 percent. If SB 495 is unchallenged, state spending will increase by \$25.8 million above present law during the 2003 biennium.

Figure 10 provides a summary of the entitlement changes made by HB121.

Figure 10  
K-12 Entitlement Changes - HB 121

	Fiscal 2001	Fiscal 2002	Percent Change	Fiscal 2003	Percent Change
Elementary Basic Entitlement	18,540	18,889	1.88%	19,244	1.88%
High School Basic Entitlement	206,000	209,873	1.88%	213,819	1.88%
Elementary Per-ANB Entitlement	3,763	3,834	1.88%	3,906	1.88%
High School Per-ANB Entitlement	5,015	5,109	1.88%	5,205	1.88%
Note: Change in fiscal 2003 is contingent upon SB 495. If SB 495 is enjoined before April 1, 2002, then the percentage change in entitlements is 0.79 percent.					

Senate Bill 65 – Eliminates the state's obligation to pay school tuition for students who cross a county line to attend school. The state will continue to pay tuition for students who attend school outside their

resident district because a state agency or a court, including a tribal court, has placed them in a home or institution outside their resident district. The sending district will pay tuition when the children attend another district because of a geographic barrier between the child and the school of residence. In all other cases, parents will pay the tuition or else the receiving district may waive tuition charges.

The county in which the child attends school will continue to pay the state's share of tuition by withholding the amount out of 55 mill property tax payments made by the county to the state. Because fewer students will qualify for state-paid tuition, the amount of 55 mill revenue submitted by counties to the state will increase by \$919,000 in fiscal 2003. SB 65 also changes the way the receiving school district accounts for the receipt of tuition. Under previous law, districts were required to receive tuition payments in the district general fund below the BASE budget, thereby offsetting local property taxes and Guaranteed Tax Base (GTB) aid from the state. Under SB 65, receiving districts are allowed to budget for tuition receipts in the OverBASE portion of the district general fund. As a result, state GTB payments will increase by \$900,000 in fiscal 2003.

House Bill 41 – Provides for the deposition of state timber revenue in a special revenue school technology account, and statutorily appropriates the money for distribution to school districts. Formerly, the money was appropriated in HB 2 from the general fund. Districts may use the money for the purchase of technology items. It is expected that timber revenue will be \$1.25 million in fiscal 2002 and \$1.6 million in fiscal 2003.

HB 41, in conjunction with SB 495, also creates a new guarantee subfund in the general fund into which is deposited the interest and income from common school lands. The money in the subfund must be used for basic and per-ANB entitlements.

Senate Bill 390 – Creates a new state special School Flexibility Account, into which is transferred from the general fund \$5 million in fiscal 2003. The appropriation to school districts out of the state flexibility account in fiscal 2003 is \$5.083 million. The spending of the flex account money will take place in November of 2002, and the additional \$83,000 reflects interest for a quarter of a year.

SB 390 also:

- ?? Creates a new district school flexibility fund (beginning in FY2003), which may be used to fund:
  - 1) technological equipment enhancements; 2) facility expansion and remodeling; 3) supplies and materials; 4) student assessment and evaluation; 5) the development of curriculum materials; 6) training for classroom staff; 7) free or reduced price housing for classroom teachers; 8) incentives for the recruitment and retention of classroom teachers and other certified staff; and 9) increases in energy costs. In fiscal 2003, districts will receive \$5 million plus interest from the state to support the school flexibility fund. In addition, a district may propose a voted levy not to exceed 25% of the flex funding it receives from the state
- ?? Allows a district whose current year general fund budget exceeds the ensuing year's maximum general fund budget to adopt a general fund budget for the ensuing year up to the current year's general fund budget for up to five years
- ?? Expands the uses of the building reserve fund to include a school transition levy for transition costs related to the opening or closing of a school, replacement of a school building, or consolidation or annexation of school districts
- ?? Extends the deadlines relating to school elections for the spring of 2001

Figure 11 shows the method by which money in the state flexibility account will be distributed among school districts in the state.

Figure 11 Spending from School District Flexibility Account		
Flex Spending Item	Percentage	Distribution
K-12 Public Schools Amount	15.0%	Number of School Sites per 20-6-501
Large District K-12 Public Schools Amount	25.0%	Number of School Sites > 250 ANB
Current Student Amount	20.0%	ANB - prior year
Average Student Amount	40.0%	5-year average ANB
-- Local effort may match flex account amount with 25% local voted property tax levy		

House Bill 160 – Revises special education funding and changes the special education allocation formula to the following:

- ?? 52.5 percent to instructional block grants
- ?? 17.5 percent to related services block grants
- ?? 25 percent to reimbursement of local districts
- ?? 5 percent to special education cooperatives and joint board for administration and travel

House Bill 164 – Revises school general fund limitations by removing the 4 percent growth limitation on school districts that adopt a general fund budget between the BASE and the maximum budget.

House Bill 625 – An interim study of school funding, HB 625 directs the Governor, with assistance from the State Superintendent of Public Instruction, to conduct a study of school funding. The study is to be completed by December 31, 2001 and presented to the interim legislative committee on Education and Local Government. The committee will hold hearings on the study and make recommendations to the 2003 legislature.

Senate Bill 94 – Allows 175 percent of special education allowable costs in maximum budget. For fiscal 2002, the bill redefines the maximum general fund budget to include 175 percent of the state special education allowable cost payment. For fiscal 2003 and beyond, the maximum general fund budget includes at least 175 percent of the state special education allowable cost payment, but it may include up to 200 percent for a district that reports special education expenditures in excess of the 175 percent threshold. On average statewide, SB 94 raises the general fund maximum budget by approximately 1 percent.

Figure 12 is a complete listing of appropriations by fund type included in the Distribution to Schools program.

Figure 12  
HB 2 Distribution to Schools, General Fund, State Special, and Federal Funds

Description	Base Budget 2000	PL Base Adjustments Fiscal 2002	New Proposals Fiscal 2002	Total Fiscal 2002	PL Base Adjustments Fiscal 2003	New Proposals Fiscal 2003	Total Fiscal 2003
<b>General Fund</b>							
Direct State Aid	\$285,014,058	\$31,014,216	\$6,118,767	\$322,147,041	\$26,328,788	\$12,146,539	\$323,489,386
GTB - School General Fund	120,232,160	(24,581,236)	2,296,463	97,947,386	(25,931,493)	5,645,234	99,945,902
GTB - School Retirement	21,079,332	(779,332)	381,573	20,681,573	(779,332)	154,712	20,454,712
School Facility Reimbursement	3,359,559	640,441	350,000	4,350,000	640,441	700,000	4,700,000
Special Education	33,879,457	20,393	-	33,899,850	20,393	1,016,996	34,916,846
Transportation	10,587,993	200,000	-	10,787,993	300,000	-	10,887,993
Instate Treatment	506,215	468,682	-	974,897	468,682	-	974,897
Secondary Vo Ed	720,000	(5,000)	-	715,000	(5,000)	-	715,000
Adult Basic Ed	250,000	-	25,000	275,000	-	25,000	275,000
Gifted & Talented	141,074	8,926	-	150,000	8,926	-	150,000
School Food	648,653	-	-	648,653	-	-	648,653
Other	136,725	8,300	-	145,025	12,700	-	149,425
School Flexibility Account	0	0	0	0	0	5,000,000	5,000,000
Total General Fund	\$476,555,227	\$6,995,389	\$9,171,803	\$492,722,418	\$1,064,106	\$24,688,481	\$502,307,814
<b>State Special Revenue</b>							
Traffic Safety Distribution	\$1,000,000	(\$250,000)	\$0	\$750,000	(\$250,000)	\$0	\$750,000
Timber School Technology Acct-Statutory	-	-	1,250,000	1,250,000	-	1,600,000	1,600,000
Flex Account	0	0	0	0	0	5,083,000	5,083,000
Total State Special	\$1,000,000	(\$250,000)	\$1,250,000	\$2,000,000	(\$250,000)	\$6,683,000	\$7,433,000
<b>Federal Special Revenue</b>							
Federal School Foods Programs	\$17,939,414	\$28,500	\$0	\$17,967,914	\$28,500	\$0	\$17,967,914
ESEA - Title I	28,174,873	2,500,000	0	30,674,873	3,500,000	0	31,674,873
ESEA Title II - Eisenhower Pro Dev	1,256,390	500,000	0	1,756,390	500,000	0	1,756,390
ESEA Title III-Tech Literacy Challenge	2,804,972	0	0	2,804,972	0	0	2,804,972
ESEA Title IV Safe & Drug Free Schools	1,678,389	0	0	1,678,389	0	0	1,678,389
ESEA Title VI - Innovative Education	1,684,182	500,000	0	2,184,182	500,000	0	2,184,182
ESEA Title VII - Immigrant Education	35,199	6,000	0	41,199	6,000	0	41,199
IDEA	13,086,597	5,927,000	0	19,013,597	8,657,000	0	21,743,597
Adult Basic Education	1,220,107	160,000	0	1,380,107	160,000	0	1,380,107
Job Training Partnership Act (JTPA)	240,705	(240,705)	0	-	(240,705)	0	-
Carl Perkins	2,845,689	-	0	2,845,689	-	0	2,845,689
School to Work	2,748,249	(300,000)	0	2,448,249	(2,448,249)	0	300,000
Education of Homeless Children	49,739	75,000	0	124,739	75,000	0	124,739
Learn and Serve Montana	44,020	30,000	0	74,020	30,000	0	74,020
Reduced Class Size BL	0	0	7,605,780	7,605,780	0	9,492,523	9,492,523
Advanced Placement Fee Reimbursement	0	0	194,900	194,900	0	238,600	238,600
Emergency School Renovation	0	0	5,428,913	5,428,913	0	5,428,913	5,428,913
Comprehensive School Reform	0	0	963,061	963,061	0	963,061	963,061
Total Federal Special	\$73,808,525	\$9,185,795	\$14,192,654	\$97,186,974	\$10,767,546	\$16,123,097	\$100,699,168
<b>Total General Fund</b>	<b>\$476,555,227</b>	<b>\$6,995,389</b>	<b>\$9,171,803</b>	<b>\$492,722,418</b>	<b>\$1,064,106</b>	<b>\$24,688,481</b>	<b>\$502,307,814</b>
<b>Total State Special</b>	<b>1,000,000</b>	<b>(250,000)</b>	<b>1,250,000</b>	<b>2,000,000</b>	<b>(250,000)</b>	<b>6,683,000</b>	<b>7,433,000</b>
<b>Total Federal Special</b>	<b>73,808,525</b>	<b>9,185,795</b>	<b>14,192,654</b>	<b>97,186,974</b>	<b>10,767,546</b>	<b>16,123,097</b>	<b>100,699,168</b>
<b>Total HB2 Distribution to Public Schools</b>	<b>\$551,363,752</b>	<b>\$15,931,184</b>	<b>\$24,614,457</b>	<b>\$591,909,392</b>	<b>\$11,581,652</b>	<b>\$47,494,578</b>	<b>\$610,439,982</b>
<b>One-time only</b>							
Reduced Class Size BL	FY00 5,286,445	FY01 6,437,597					
Comprehensive School Reform	425,383	792,603					
School to Work	2,707,464	2,352,535					

**House Bill 124** - HB 124 changes the source of a large amount of revenue received by school districts by reallocating certain district sources of revenue to the state general fund and replacing this revenue with block grants from the state general fund. HB 124 will not affect state aid that flows to school districts through the entitlement program.

HB 124 contains appropriations for block grants to school districts and countywide school transportation retirement accounts for fiscal 2002 and 2003. The biennial appropriation to districts is \$114.4 million and to the countywide accounts is \$25.6 million.

The amount of each school district block grant in fiscal 2002 will be the sum of: 1) 93.4 percent of fiscal 2001 actual collections of motor vehicle revenue; 2) financial institutions corporation tax revenue; 3) aeronautics fees; 4) state payments-in-lieu-tax (PILT), and 5) SB 184 reimbursements. If the amount calculated for fiscal 2002 is more than one half the appropriated amount of \$114.4 million, then the amount of the block grant for each school district must be prorated in fiscal 2003. If the biennial appropriated amount for school district block grants is more than sufficient to fund twice the sum of the fiscal 2001 revenue amounts foregone, then the fiscal 2003 block grants may grow by no more than 0.76 percent of the fiscal 2002 block grant amount.

The block grants to the countywide school accounts are specified in HB 124 for each county. The growth in block grants between fiscal 2002 and 2003 is 0.76 percent.

The block grants to school districts and to the countywide school accounts will continue beyond the 2003 biennium unless the 2003 legislature repeals or alters them. If the block grants continue beyond the 2003 biennium, HB 124 requires that the average block grant for fiscal 2002 and 2003 be grown at 0.76 percent per year in each succeeding year. Furthermore HB 124 (section 249) requires the governor to include the appropriated block grant amounts for the 2003 biennium in the present law budget for the 2005 biennium.

The block grants to school districts and to the countywide school accounts will be distributed 70 percent in November and 30 percent in May.

HB 124 did not change the distribution of HB 20 and SB 417 reimbursements to school districts and countywide accounts. HB 20 (1989 session) and SB 417 (1995 session) provide for reimbursement to school districts and the countywide accounts for reductions in personal property tax rates in past sessions. These payments will decline by 10 percent per year until they are eliminated in fiscal 2009.

The block grants in HB 124 replace the amount of revenue school districts receive in their general fund and that counties receive in their countywide retirement accounts. Thus, no change in state GTB costs are anticipated.

## ENERGY ISSUES

### INTRODUCTION

In the few months before the 2001 legislature convened, energy costs quickly moved to the top of the list of issues that needed to be addressed. However, even as the session began, the picture was not clear. Natural gas prices had already shown marked increases in the current biennium, but electricity for some consumers was holding steady with controls in place until June 30, 2002. Other consumers, notably some large industrial users, had opted to contract for competitive rates in a market in which the California power shortages were driving prices through the roof. Some job lay-offs occurred that are attributed to the price of energy. One company that had secured a reasonable long-term rate shut down operations, finding that selling its electricity elsewhere would be more profitable than continuing operations. California shortages and drought conditions in the northwest were blamed for the situation. The bizarre circumstances related to energy in the northwest have had and will continue to have broad impacts to state and local government, industrial and commercial enterprises, and every citizen of the state. Although efforts to increase supply are already in the works and are being further encouraged by legislation passed by this legislature, it appears higher prices will not be avoided.

### STATE AND LOCAL GOVERNMENT

There are obvious impacts to state and local government as consumers of electricity and natural gas. Among state agencies, the university system anticipates the biggest impact, but other state institutions will also see significant energy cost increases. Electricity costs that are currently at about \$24/mwh (megawatt hour) are expected to increase to at least \$40 to \$45, and have been projected by some to exceed \$80. The magnitude of such increases is more dramatic when expressed as increases of 67 to 234 percent.

The 2001 legislature approved inflationary increases to state agencies in HB 2 for fiscal 2002 and fiscal 2003 of 7 and 9 percent for electricity and 18 and 10 percent for natural gas, respectively. The legislature chose not to provide greater increases in 2003 biennium appropriations because of the uncertainty of the future prices, stating that to the extent such increases occur, they will be handled through the supplemental appropriation process and ultimately addressed by the 2003 legislature. The legislature did, however, set aside \$2.3 million general fund in an unreserved, designated fund balance for "energy costs reserve", designating it as a contingency for increased electricity and natural gas costs above what is appropriated in HB 2. The \$2.3 million figure is based upon an increase in electricity prices from a base of \$24/mwh to \$40/mwh in fiscal 2003, and an increase in natural gas prices from a base amount of \$2.48/dkt (dekatherm) to \$3.55/dkt in fiscal 2002 and to an average of \$3.15/dkt in fiscal 2003. Adjustments were also made for delivery costs of each commodity.

Among local government jurisdictions, school districts particularly are expected to be impacted. The legislature did not specifically address the school funding for these potential increases. School districts and local government will have to address these issues individually. For state and local government, the legislature anticipated that the legislation discussed below would help resolve the issues of supply and demand, and will ultimately keep prices at affordable levels, avoiding at least a long-term crisis, if not the short-term spike in prices.

## NON-GOVERNMENT CONSUMERS

Energy costs for industrial/commercial and residential consumers were of significant concern to the legislature. Although limited action was taken to directly control prices, the legislature did attempt to address problems at the root of these increased costs. Many bills were considered and several were passed and approved. The following section summarizes the 11 bills that were adopted.

## LEGISLATION ENACTED

The provisions of various enacted legislation address three significant issues related to the energy crisis: (1) energy prices and the effects of supply and demand; (2) consumer protection; and (3) energy conservation.

HB 474 – Revise energy laws pertaining to large customers. This bill contains a number of provisions intended to encourage electrical energy production or protect consumer interests. Major provisions are discussed below.

- ?? Incentives through low-interest loans via the Montana In-State Investment Act for up to 450 megawatts of electrical energy for new generation in Montana and/or purchase of up to 120 megawatts from existing qualified facilities in Montana
- ?? Creation of a Montana Power Authority...the authority is authorized to purchase, construct, and operate electrical generation facilities or electrical energy transmission or distribution systems and to enter into joint ventures for these purposes...the board of examiners is authorized to issue revenue bonds for the Montana Power Authority to acquire electrical generation facilities and to build electrical energy transmission or distribution systems...the principal and interest on the bonds is payable from the sale of electrical energy from the facilities and from electrical energy transmission and distribution charges
- ?? Designation that the distribution services provider is the default supplier until statutorily changed by the legislature and requires the default supplier to provide for the full electricity supply of all default supply customers
- ?? Direction that the Public Service Commission establish procedures and terms under which customers may choose an electricity supplier other than the default supplier or may choose to be served by the default supplier
- ?? Allowing the default supplier to recover all statutorily defined electricity supply costs, subject to a "prudence" test by the Public Service Commission
- ?? Extends the Universal Systems Benefits Programs (USBP) and requires that 6% of the USBP funds be spent on irrigated agriculture energy conservation and efficiency programs
- ?? Requires a public utility to offer a separately marketed renewable resource product
- ?? Provides for a consumer electricity support program...in the event that an excess revenue tax is imposed, up to \$100 million could be used to provide an affordable and reliable electricity supply to customers of the default supplier (the excess revenue tax was not imposed)

HB 600 – Tax exemption for energy generating equipment for a business. This bill exempts from property taxation noncommercial electrical generating machinery and equipment that is used in a person's business if at least 80 percent of the electricity produced is used by the person. The exemption is to be prorated to the percent of usage by the person. The bill states that the generation must meet clean air standards. The provision applies to tax years beginning after December 31, 2000, and terminates December 31, 2004.



HB 643 – Tax exemption for electricity generated on reservation. This bill exempts individuals, corporations, partnerships, and small businesses from the statutory limit on a federal tax credit for purposes of determining the state credit for investments in wind energy, if the wind-powered generating system is within a Montana Indian reservation. It also exempts the system from the wholesale energy transaction tax and it makes electricity generation and transmission facilities, irrespective of size and fuel source, eligible for state-issued revenue bonds intended to finance economic development projects.

HB 645 – Implement an electrical energy pool. This bill creates an electrical energy pool to make electrical energy available for resale through the conservation efforts of the contracting customers. The Public Service Commission (PSC) may require a default supplier, a distribution services provider, and a public utility to participate in the pool. Cooperatives and municipal utilities are exempt. It authorizes the PSC to determine whether to accept generator or supplier offers to sell or assign electrical energy to the pool for distribution to Montana customers. All electrical energy purchased from the pool must be used by the customer for its facilities or operations in Montana. The customer may not resell for profit electrical energy purchased from the pool.

SB 19 – Delay the implementation of full customer choice in electricity supply. This bill extends the transition period during which utilities may phase in customer choice of electricity supplier to July 1, 2007 (from 2002). It extends the termination date of the Transition Advisory Committee on Electric Industry Restructuring to December 31, 2007, to coincide with the extension of the transition period.

SB 134 – Reduce Coal Severance Tax for sales to new in-state generation plants. This bill taxes coal used in an electrical generation facility built after December 31, 2001, and before January 1, 2008, at one-third of the existing coal severance tax rates. The electrical energy must be sold at a price set by the Public Service Commission that is based on producer's cost of generating energy, plus a reasonable rate of return. It is effective January 1, 2002, and applies to coal produced after December 31, 2001.

SB 269 – Revise certain dates for transition to customer choice for electricity suppliers. The changes that occur in this bill are the same as part of the provision of SB 19 discussed above.

SB 398 – Temporary power generation facilities. This bill allows the operation of a temporary power generation unit or units, with not more than a total generating capacity of 125 megawatts, for generating electricity without an air quality permit with the following conditions.

- ?? The applicant must submit a signed permit application and may not commence operation until the applicant receives a written notice from the Department of Environmental Quality (DEQ)
- ?? At least 50 percent of the electrical energy produced by the temporary power generation unit must be used in or offered for sale in Montana at prices that do not exceed 6 cents per kilowatt hour
- ?? The operation of the power generating unit or units may not violate ambient air quality standards
- ?? The permit applicant is required to cease operation if, after notification by DEQ, the applicant has failed to submit requested information that is necessary to process the permit application

A permit issued pursuant to this legislation must expire no later than 2 years from the date of issuance and the temporary power generating unit or units must be removed unless an air quality permit for a permanent operation has been issued. The bill is retroactive to applications filed on or after January 1, 2001, and terminates on July 1, 2005.

SB 506 – Encourage alternative energy and electrical generation. This bill contains a number of provisions that are intended to encourage the development of alternate energy sources or systems. Provisions include loans for financing such systems, creation of special improvement districts, state-issued bonds, and various tax breaks.

SB 508 – Encourage electrical generation in Montana. This bill exempts from property taxation (for a 10-year period) an electrical generation facility and related facilities constructed after the effective date of the act, provided that the owner of the facility offers contracts to sell at least 50 percent of the net output to Montana customers at a cost-based rate of return not to exceed 12 percent for a 20-year period. It provides for a rollback tax if the owner or operator does not comply with contracts. The bill also imposes an impact fee, proceeds of which are to be distributed to the impacted local government units and school districts. It provides for interlocal agreements in instances where the facility is located within the jurisdiction of areas of multiple local government units. It was effective on passage and approval.

SB 521 – Revise Governor's emergency powers. This bill expands the Governor's emergency powers by the "price of energy" for circumstances, within the definition of "energy emergency," that would require action to conserve or increase supply. It was effective on passage and approval.

## ECONOMIC DEVELOPMENT

The Martz Administration advocated economic development as a major priority of the 2001 Legislative Session. The primary economic development action taken by the legislature was to approve a reorganization of the Department of Commerce, as recommended by the Governor. One of the goals of this reorganization was to make the department more effective in its economic development endeavors, in part by transferring all regulatory functions of the agency to other agencies, and allowing the department to focus on business development and recruitment.

As part of this effort, the legislature created an Office of Economic Development within the Governor's Office. The office, which consists of a Chief Business Development Officer and staff, is charged with:

1. advising the Governor on policy issues related to economic development;
2. leading the state's business recruitment, retention, and expansion efforts;
3. coordinating the development and distribution of a statewide coordinated strategic economic development plan; and
4. acting as liaison with other governments, including tribal governments.

The legislature provided \$2.4 million in the 2003 biennium to support the office. This funding consists of a \$1.7 million general fund appropriation to the Governor's Office in HB 2, and a \$350,000 per year general fund statutory appropriation. The legislature redirected the statutory appropriation that had formerly been earmarked for business recruitment to this purpose.

The legislature also maintained statutory appropriations established in the May 2000 Special Session for economic development efforts through the 2005 biennium, as shown in Figure 13.

Figure 13 Statutory Appropriations for Economic Development 2003 and 2005 Biennia	
Activity	2003/2005 Biennia (Each)
Agriculture and Commerce	
Growth Through Agriculture Grants and Loans	\$1,792,000
Marketing and Business Assistance (Ag)	708,000
Certified Communities	850,000
Export Trade Enhancement	600,000
Small Business Development Centers	250,000
Small Business Development Centers	100,000
Industrial Infrastructure Reimbursement	1,200,000
Cooperative Development Center	130,000
Manufacturing Extension Center	400,000
Board of Research and Commercialization Grants*	<u>9,700,000</u>
Total General Fund	<u>\$15,730,000</u>
Water and Sewer Pre-Engineering	<u>425,000</u>
Total Treasure State Endowment Funds	<u>\$425,000</u>
*Transfer out	

For a further discussion of this reorganization, see page 96 of this Volume, and page C-154 of Volume 4.

## DEPARTMENT OF COMMERCE REORGANIZATION

Senate Bill 445 established the Office of Economic Development within the Office of the Governor and reorganized the Department of Commerce by transferring several functions to other agencies. Stated goals of SB 445 were to: 1) streamline the Department of Commerce to allow it to better focus on economic development initiatives; and 2) provide the Governor with direct access to an Office of Economic Development.

Functions transferred from the Department of Commerce include the following.

Transferred to the Department of Administration:

- ?? Banking and Financial Institutions Division
- ?? Local Government Services Division
- ?? Montana State Lottery
- ?? Consumer Affairs Division

These transfers increased the Department of Administration by 67.0 FTE and \$1.5 million general fund, \$3.1 million state special revenue, and \$17.8 million proprietary funding across the biennium.

Transferred to the Department of Labor and Industry:

- ?? Professional and Occupational Licensing
- ?? Weights and Measures Bureau
- ?? Building Codes Division

These transfers increased the Department of Labor and Industry by 107.53 FTE and \$18.6 million state special revenue across the biennium.

Transferred to the Department of Livestock:

- ?? Board of Horseracing

This transfer increased the Department of Livestock by 3.78 FTE and \$480,240 state special revenue across the biennium.

SB 445 added 7.0 FTE to the Governor's Office to staff the Office of Economic Development, 3.0 FTE of which were transferred from the Banking and Financial Division. The legislature added \$850,000 general fund in each year of the biennium to fund Office of Economic Development functions. Additionally, SB 445 reallocated a \$350,000 annual general fund statutory appropriation for the purpose of business recruitment from the Department of Commerce to the Office of Economic Development.

All together, the effects of SB 445 on HB 2 funding are:

- ?? An FTE increase of 4.0 for the 2003 biennium
- ?? A general fund increase of \$1.7 million across the biennium
- ?? A state special revenue decrease of approximately \$407,000 across the biennium

For further information on the effects of SB 445 on each department's funding, please see the corresponding agency narratives in Volumes 3 and 4.

## INFORMATION TECHNOLOGY GOVERNANCE

The 2001 legislature passed legislation that revised and reinforced how information technology assets of the state are to be managed. HB 2 of the 1999 legislature required an interim study of the governance and management of information technology in the state. The 2001 legislature passed SB 131 which, as introduced, contained the recommendations of the Legislative Finance Committee. In the end, the legislature revised statutes that govern information technology in the following ways:

- ?? Documented legislative policy for the use and development of information technology resources in the state
- ?? Established a 19 member board to provide a forum for sharing needs and concerns and to advise the Department of Administration in development of information technology resources for the state
- ?? Clarified duties and authority associated with information technology for the Department of Administration
- ?? Provided for a Chief Information Officer to serve as the chief policy advisor on statewide information technology issues
- ?? Provided for state and agency strategic information technology planning processes that were linked to budgeting processes
- ?? Established a process for legislative oversight of information technology during the legislative interims

No additional funding was provided to implement any of the changes.

## MENTAL HEALTH SERVICES INTERIM STUDY (HJR 35)

The Legislative Finance Committee (LFC) studied public mental health services during the 2001 biennium interim as directed by the 56<sup>th</sup> Legislature in HJR 35. As part of its study recommendations, the LFC recommended six bills to the 2001 Legislature and requested that the Health and Human Services Joint Appropriation Subcommittee review several issues. Each of the bills recommended by the LFC passed and are listed below.

- ?? HJR 1 provides for an interim study of mental health services by an interim subcommittee of the LFC to include members from the: Legislative Audit Committee; Children, Families, Health, and Human Services; Law, Justice, and Indian Affairs; and State Administration, Public Retirement Systems, and Veterans' Affairs interim committees. The charge of the study is to monitor the continued development of appropriate and effective community services to serve persons in the least restrictive environment, the cost-effective provision of services, and the use of best practices. Specifically mentioned are the evolution of more sophisticated case management, issues of commitment to community facilities, programs, and treatment and involuntary medication identified in the 1999-2000 interim process, and issues of mental health services with respect to corrections and veterans' affairs.
- ?? SJR 2 supported the executive proposal adopted by the legislature to fund training for law enforcement and other persons who deal with persons with a serious and disabling mental illness.
- ?? SB 82 revised laws on public mental health system and managed care.
- ?? SB 107 allowed teleconferencing in all mental health proceedings at the agreement of the respondent or patient.
- ?? SB 108 defined Advanced Practice Registered Nurses (APRN) (masters-level) with a clinical specialty in psychiatric mental health nursing as "professional persons" for the purposes of the mental health law (which allows them to testify in court proceedings and to order medication in a mental health facility).
- ?? SB 135 revised mental health ombudsman laws.

Each issue the LFC requested be reviewed, and the subcommittee action with respect to it, are listed below.

- ?? Issue - Ensure that Mental Health Services Plan (MHSP) financial eligibility for children eligible for both MHSP and CHIP be established at the same level as financial eligibility for CHIP
- ?? Action – Accepted the executive recommendation to eliminate MHSP services for children not eligible for CHIP, making the issue irrelevant
- ?? Issue - Review updated estimates to expand MHSP financial eligibility and cost sharing options initiated during the HJR 35 study
- ?? Action – Reviewed and determined cost over-runs in mental health services and resultant service reductions precluded expansion
- ?? Issue - Review the DPHHS calculation of the average cost of providing mental health services by system component and age of recipient, and the average cost of a high-end user of mental health services by system component and age of recipient
- ?? Action – DPHHS provided the requested information and the appropriations subcommittee reviewed such costs

- ?? Issue - Closely evaluate the appropriation request for the state hospital, and particularly the estimate of the average daily population (ADP) for the facility
- ?? Action - Reviewed DPHHS estimates and appropriated additional funds for services to help reduce the state hospital population or support higher estimated populations at the state hospital
- ?? Issue - Review guidelines and implementation by DPHHS of provision of federal Medicaid matching funds to local governments for the cost of transporting Medicaid eligible persons to medical facilities, other than the state hospital
- ?? Action – DPHHS provided information on Medicaid reimbursement, but did not provide a specific implementation plan or date
- ?? Issue - Review the DPHHS case management model that was to be developed in response to a request from the LFC
- ?? Action – DPHHS provided testimony to the appropriations subcommittee on types of case management models, but did not elaborate on a specific one that it would use - - the legislature accepted the executive recommendation to eliminate case management as a covered service for children

## TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

### OVERVIEW

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 created the Temporary Assistance for Needy Families (TANF) block grant and replaced the former Aid to Families with Dependent Children (AFDC) program with the TANF program. This legislation marked the beginning of federal welfare reform. Welfare reform emphasizes the provision of services and assistance that results in movement of families from welfare to work. This legislation also changed funding for welfare programs from an open-ended entitlement program to a specified and limited amount of funding available to the state. Montana's welfare reform project, Families Achieving Independence in Montana (FAIM), began in February 1996 and FAIM became Montana's TANF program in February 1997.

The current authorization of the Temporary Assistance for Needy Families (TANF) grant expires in fiscal 2003 (September 2002) and the program will require reauthorization by Congress. It is unknown what will occur when Congress considers reauthorization during the summer and fall of 2002. However, the large surpluses of funds remaining unexpended by many states are a concern. The precedence set by reallocation of unexpended federal Children's Health Insurance Plan funds may be an indication that unexpended federal funds in other programs will be reallocated among states. Currently, the availability of unexpended TANF funds, level of funding for the program, and allocation of funding among states that will exist after September 2002 is unknown.

Due to uncertainty surrounding the continued availability of unexpended TANF funds, the legislature appropriated all available TANF funds in HB 2. Appropriations of TANF funds, as included in HB 2, result in expenditure of all federal TANF funds (prior and current year grants) by the end of the 2003 biennium.

### FAIM PHASE II-R

Montana implemented welfare reform in February 1997. Those FAIM recipients who have continued to participate in the program since the beginning of welfare reform will reach the lifetime limit of 60 months of assistance in February 2002. As welfare reform continues and significant events such as reaching lifetime limits on assistance and federal reauthorization of TANF approach, the FAIM program has been modified by a second phase of welfare reform known as FAIM, Phase II-R.

The components of FAIM Phase II-R are included in House Bill 2 as line items and illustrated in Figure 14. FAIM Phase II-R, as approved by the legislature, focuses on the priorities as listed below.

- ?? Education and training programs targeted at jobs that provide higher wages than the traditional service industry jobs that typically employ many FAIM participants
- ?? Services to address the need for assessments and intensive services for some families
- ?? Housing needs of low-income families
- ?? Transportation needs of low-income families.



HB 2 includes restricted appropriations of federal TANF funds for; 1) Tribal Projects; 2) Nontraditional Job Training – Tribal; 3) High-Wage, High-Skill Training; and 4) Adult Basic Education. The legislature approved use of a portion of the funding in the Tribal Projects item for evaluations, feasibility studies, and data collection activities by individual or groups of Montana tribes.

Figure 14 FAIM Phase II-R		
Item	Fiscal 2002	Fiscal 2003
Parents As Scholars	\$1,331,183	\$0
Tribal Projects	2,489,360	0
Tribal NEW	1,139,093	1,116,468
Non-Traditional Job Training	841,394	0
Other Non-Traditional Training Programs -Tribal	989,875	0
Other Non-Traditional Training Programs -Non-Tribal	494,937	0
High-Wage, High-Skill Training	494,937	485,108
Assessment Services - Intensive Case Management	1,092,974	1,071,267
Chemical Dependency Home	629,560	0
Learning Disabilities Contracted Services through OPI or Tribal Colleges	593,924	0
Mental Health Services	494,937	0
Family Drug Court	395,950	0
Low-Income Housing	3,464,561	0
Transportation	791,899	0
Additional Month Grant for Working Families	1,228,979	1,204,570
Emergency Supportive Services for Working Families	1,025,510	274,209
School Breakfast Program (HB 353)	178,178	0
Individual Development Accounts	138,742	135,986
Children as Scholars (Head Start)	1,979,874	0
TEAMS Reprourement/Enhancements	989,875	485,107
Increased Benefits/Assistance*	3,061,322	2,745,226
Children's Trust Fund	250,000	250,000
Total	<u>\$24,097,064</u>	<u>\$7,767,941</u>
*The appropriation for this item is included in item 1 in HB 2.		

## MAINTENANCE OF EFFORT

Federal regulations require states maintain a specified level of expenditure of state and local funds on welfare programs. This maintenance of effort is based upon historical expenditures and must be at least 80 percent of the historical expenditure unless the state meets mandated work participation rates. States, such as Montana, that meet the federal work participation requirements may reduce the maintenance of effort to 75 percent. The 2001 legislature approved two significant changes in TANF maintenance of effort.

- ?? HB 615 reduced the TANF maintenance of effort level specified in statute from 77 percent to 75 percent. Due to this change, general fund appropriated for TANF maintenance of effort was reduced \$395,555 per year.
- ?? Under federal regulations, the state's maintenance of effort requirement is reduced when a tribe implements a tribal family assistance plan. In October 2000, the Fort Belknap Indian Community implemented a tribal family assistance plan. The implementation of this tribal family assistance plan resulted in a decrease in Montana's maintenance of effort (below the fiscal 2000 level) of \$397,000 annually. HB 2 reflects a reduction in general fund budgeted as maintenance of effort of \$397,000 per year or \$794,000 for the biennium.

The legislature chose to appropriate approximately \$1 million of the general fund available due to changes in the TANF maintenance of effort as matching funds for additional federal child care funds.

An additional legislative action that impacted TANF maintenance of effort was the passage of HB 124, the local government funding bill. Historically, a portion of public assistance cost, including TANF maintenance of effort, has been funded with state special revenue from county contributions to public assistance costs (\$1.1 million in fiscal 2000). HB 124 provides that public assistance costs be funded from general fund rather than state special revenue collected from counties. Thus, in the 2003 and future biennia, TANF maintenance of effort will be funded entirely with general fund.

## **TRANSFER OF TANF FUNDS**

The TANF spending plan approved by the legislature for the 2003 biennium includes the transfer of \$17 million to the Child Care Development Fund for childcare services, and \$8.1 million to Title XX, the Social Services Block Grant. The funds transferred to Title XX are appropriated for services to foster care children and developmentally disabled individuals.

The transfer to Title XX is appropriated at 10 percent of the TANF grant, the maximum allowable under federal regulations applicable to the current year. This maximum allowable transfer from TANF to Title XX decreases from 10 to 4.25 percent in federal fiscal 2002. This reduction was originally to take place in federal fiscal 2001, but federal regulations pertaining to federal fiscal 2001 were changed to allow the continuation of transfers of up to 10 percent of the federal TANF grant to Title XX. Advocacy groups at the national level intend to lobby for changes that would maintain the states' ability to transfer up to 10 percent of the TANF grant to Title XX in federal fiscal 2002.

## **POINTS ISSUES AND OPERATIONS**

The Process Oriented Integrated System (POINTS) is an integrated revenue and tax system for income tax, unemployment insurance contributions, income modernization, and property taxes collected by the Department of Revenue. POINTS was funded by general obligation bonds with \$14 million authorized by the 1997 legislature to provide the first phase of the project and \$18 million authorized by the 1999 legislature to complete the project and to realign the business processes of the Department of Revenue.

The first phase of the project developed the infrastructure components that will provide the integration and will support data and common processes of all tax types. This portion of the system has been completed and accepted by the department under the terms of the contract. However, when the system was accepted, there were more than 100 programming defects that the department considers critical to the mission of the system. Since this portion of the system will function as the foundation or common infrastructure for later phases of the system, the legislature was concerned that the department was proceeding with the next phase without first clearing up the programming defects that exist in the system.

To address legislative concerns and project issues, the legislature approved a \$319,100 general fund supplemental appropriation in HB 3 for POINTS related costs: 1) \$100,000 for legal fees related to dealings with the contractor for the existing phase of the system; and 2) \$219,100 for costs to upgrade the old legacy property tax system for potential use during the next property tax appraisal cycle and for limited parallel testing. Project issues that will be addressed by the supplemental appropriation relate to ongoing contract disputes between the department and the current system development contractor. These issues threaten to delay implementation of the system and may impact the ability of the system to be used for the upcoming property reappraisal cycle.

Legislative concerns led to inclusion of language in HB 2 that directs the department to provide status reports to the Revenue and Transportation Committee during the interim on the progress of POINTS development and the status of fixing mission-critical defects of the system.

## STATE EMPLOYEE PAY PLAN (HB 13)

The legislature passed a pay plan (HB 13) that has two main components: 1) a salary increase; and 2) an insurance increase. The following table shows the total cost of the pay plan by component. At a cost of \$29.2 million general fund and \$35.7 million other funds over the biennium, this pay plan is the largest since the 1993 biennium pay plan enacted by the 1991 legislature.

**Figure 15**  
**Pay Plan Funding by Component**  
**2003 Biennium**

Component	Biennium General Fund	Other Funds	Total Funds
4 Percent Salary	\$23,398,907	\$28,603,096	\$52,002,003
Insurance	<u>5,790,961</u>	<u>7,064,454</u>	<u>12,855,415</u>
Total	<u>\$29,189,868</u>	<u>\$35,667,550</u>	<u>\$64,857,418</u>

\*Due to the enactment of HB 124, "other funds" contain over \$500,000 currently appropriated in HB 2, that were not to be allocated to agencies from the HB 13 appropriations. Funds in HB 13 were, therefore, over allocated.

The following shows total appropriations, including contingency and market adjustment funds, by recipient.

**Figure 16**  
**Pay Plan Appropriations by Recipient**  
**2003 Biennium**

Recipient	--- Fiscal 2002 ---			--- Fiscal 2003 ---			--- 2003 Biennium ---		
	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds
Legislative Branch	\$145,571	\$29,596	\$175,167	\$388,359	\$78,107	\$466,466	\$533,930	\$107,703	\$641,633
Consumer Counsel	0	9,829	9,829		25,902	25,902	0	35,731	35,731
Judiciary	93,728	10,564	104,292	253,634	28,560	282,194	347,362	39,124	386,486
University System	3,491,176	3,051,506	6,542,682	8,759,051	7,655,963	16,415,014	12,250,227	10,707,469	22,957,696
Executive Branch**	<u>4,344,707</u>	<u>6,718,472</u>	<u>11,063,179</u>	<u>11,713,642</u>	<u>18,059,051</u>	<u>29,772,693</u>	<u>16,058,349</u>	<u>24,777,523</u>	<u>40,835,872</u>
Subtotal	\$ 8,075,182	\$ 9,819,967	\$ 17,895,149	\$ 21,114,686	\$ 25,847,583	\$ 46,962,269	\$ 29,189,868	\$ 35,667,550	\$ 64,857,418
Executive Contingency	\$1,300,000	\$3,000,000	\$4,300,000	\$0	\$0	\$0	\$1,300,000	\$3,000,000	\$4,300,000
Legislative Contingency	200,000	0	200,000	0	0	0	200,000	0	200,000
Legislative Market Adj.	<u>400,000</u>	<u>34,500</u>	<u>434,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>400,000</u>	<u>34,500</u>	<u>434,500</u>
Total	<u>\$9,975,182</u>	<u>\$12,854,467</u>	<u>\$22,829,649</u>	<u>\$21,114,686</u>	<u>\$25,847,583</u>	<u>\$46,962,269</u>	<u>\$31,089,868</u>	<u>\$38,702,050</u>	<u>\$69,791,918</u>

\*Due to the enactment of HB 124, "other funds" contain over \$500,000 currently appropriated in HB 2 that were not to be allocated to agencies from the HB 13 appropriations. Funds in HB 13 were over allocated.

\*\*Includes teacher salary adjustments.

## SALARY INCREASE

All state employees paid under the state's primary salary matrix will receive a 3.4 percent increase each year of the biennium. This increase will take effect during the first pay period after October 1 for those hired before September 30, 1994, and on the employee's anniversary date for all other employees. (For purposes of calculating the costs of the pay plan, an average anniversary date of November 1 was used.) In addition, employees not yet at the maximum salary level will progress 0.6 percent within their current grade, resulting in a total 4.0 percent increase (employees currently at maximum salary level for their grade will not receive this increase). For example, if an employee is currently at entry level within grade 10, the entry level salary will increase by 3.4 percent, and the employee will also move 0.6 percent above entry level. The following table illustrates the mechanism.

Figure 17 Illustration of Salary Increase 2003 Biennium						
Grade	Entry Level Salary	New Entry Level Salary	Percent Increase	Progression From Entry	Total Salary	Percent Increase
8	\$15,748	\$16,283	3.4%	\$94	\$16,377	4.0%
12	22,241	22,997	3.4%	133	23,130	4.0%
15	29,074	30,063	3.4%	174	30,237	4.0%
20	46,170	47,740	3.4%	277	48,017	4.0%

Total cost of this component is \$23.4 million general fund and \$28.6 million other funds. Because this adjustment is phased in over the biennium, costs in the 2005 biennium will be approximately \$41.5 million general fund and \$50.7 million other funds.

## INSURANCE INCREASE

The legislature provided an insurance increase of \$30 per month in calendar 2002 and a further \$41 per month in calendar 2003. Beginning on January 1, 2002, the insurance contribution for executive, judicial, and legislative agencies will increase from \$295 per month to \$325 per month. On January 1, 2003, insurance contributions for those employees will increase to \$366 per month. Insurance contributions for university system employees on the Montana University System Group Insurance Plan will increase by the same amount, but this increase will take effect on July 1 of each year. Total cost of this adjustment is \$5.8 million general fund and \$7.1 million other funds over the biennium. Because this adjustment is phased in, the total cost in the 2005 biennium will be about \$11.0 million general fund and \$13.5 million other funds.

## OTHER ADJUSTMENTS

In addition to the components discussed above, the legislature made a number of other adjustments.

1. The legislature provided two contingency funds to assist agencies that cannot meet their vacancy savings requirements: a) \$1.3 million general fund and \$3.0 million other funds to assist executive branch agencies (including the judiciary and the university system), under the control of the Office of Budget and Program Planning (OBPP); and b) \$200,000 general fund to assist the Legislative Branch.

2. A total of \$400,000 general fund and \$34,500 other funds over the biennium were added to allow the Legislative Branch to move closer to statutory market salary levels. A study conducted by an independent contractor indicated that legislative salaries lag further behind statutory market than similar executive branch positions. (All branches lag well behind actual market salaries.)
3. An adjustment was made to current statute to change the way legislative per diem during the legislative session is calculated. Under previous law, legislative per diem (that amount provided to legislators for living expenses during the legislative session) was adjusted each year by the results of a survey of similar allowances in surrounding states. In the future, legislator per diem will be the daily rate for the prior legislative session increased by either: a) the percentage rate increase as determined by the survey, b) a cost of living increase to reflect inflation calculated according to current statute; or c) 5 percent, whichever is least. Since all legislative session per diem is paid via the "feed bill" that funds all costs to operate a legislative session, no change in appropriation was made in HB 13 for this adjustment.
4. The Department of Administration can currently develop and implement alternative pay and classification plans as demonstration projects. The legislature removed the requirement that the alternative plans be demonstration projects.

## STATE EMPLOYEES – FTE SUMMARY

HB 2 provides funding for a total 10,874.11 FTE state employees in fiscal 2002 and 10,915.69 in fiscal 2003, excluding the Montana University System. These totals represent an increase of 488.73 FTE (4.7 percent) in fiscal 2003 over the fiscal 2001 level used for budgeting purposes.

Figure 18: 1) provides a listing of all FTE for which funding was appropriated in HB 2 in the 2003 biennium; and 2) compares this total to the 2001 biennium total. Please note that the listing does not include any FTE that may have been added in the 2001 biennium in budget amendments or other action, or funded through language or statutory appropriations. Because the legislature does not appropriate funding specifically for FTE in the Montana University System, those FTE are not listed in the main part of the table. Also, please note that the table does not include any FTE that may be added through other legislation.

Figure 18  
Total State Employees General Appropriations Act\*  
2001 Biennium to 2003 Biennium

Section/Agency	Actual Fiscal 2000	Approp Fiscal 2001	Approp Fiscal 2002	Approp Fiscal 2003	FY01-FY03 Difference	Percent Increase
<b>Section A - General Government</b>						
Legislative Branch	125.27	127.47	125.27	130.44	2.97	2.3%
Consumer Counsel	5.04	5.03	5.04	5.04	0.01	0.2%
Judiciary	102.75	102.25	116.75	119.25	17.00	16.6%
Governor's Office	50.00	50.00	57.00	57.00	7.00	14.0%
Commissioner of Political Practices	5.00	5.00	5.00	5.00	-	0.0%
State Auditor	67.00	67.00	69.50	69.50	2.50	3.7%
Transportation	2,116.66	2,120.66	2,167.53	2,171.44	50.78	2.4%
Revenue	538.56	498.56	665.23	656.23	157.67	31.6%
Administration	81.78	81.71	145.19	145.69	63.98	78.3%
Appellate Defender	3.00	3.00	3.00	3.00	-	0.0%
<b>Total Section A</b>	<b>3,095.06</b>	<b>3,060.68</b>	<b>3,359.51</b>	<b>3,362.59</b>	<b>301.91</b>	<b>9.9%</b>
<b>Section B - Health and Human Services</b>						
Public Health and Human Services	2,696.84	2,701.79	2,798.83	2,810.58	108.79	4.0%
<b>Section C - Natural Resources and Commerce</b>						
Fish, Wildlife, and Parks	568.52	570.01	583.19	585.19	15.18	2.7%
Environmental Quality	349.24	354.23	362.99	362.99	8.76	2.5%
Livestock	134.71	137.71	144.49	144.49	6.78	4.9%
Natural Resources and Conservation	500.28	500.25	495.35	496.35	(3.90)	-0.8%
Agriculture	108.72	109.71	109.55	109.55	(0.16)	-0.1%
Commerce	241.81	209.81	64.00	65.00	(144.81)	-69.0%
<b>Total Section C</b>	<b>1,903.28</b>	<b>1,881.72</b>	<b>1,759.57</b>	<b>1,763.57</b>	<b>(118.15)</b>	<b>-6.3%</b>
<b>Section D - Corrections and Public Safety</b>						
Board of Crime Control	21.00	21.00	18.00	18.00	(3.00)	-14.3%
Justice	700.95	700.90	713.70	713.70	12.80	1.8%
Public Service Commission	39.50	39.50	39.00	39.00	(0.50)	-1.3%
Corrections	1,024.45	1,025.45	1,066.30	1,087.30	61.85	6.0%
Labor and Industry	550.10	553.50	663.88	665.63	112.13	20.3%
Military Affairs	105.20	145.20	158.00	158.00	12.80	8.8%
<b>Total Section D</b>	<b>2,441.20</b>	<b>2,485.55</b>	<b>2,658.88</b>	<b>2,681.63</b>	<b>196.08</b>	<b>7.9%</b>
<b>Section E - Education and Cultural Resources</b>						
Office of Public Instruction	114.01	118.51	116.51	116.51	(2.00)	-1.7%
Board of Public Education	4.00	4.00	4.00	4.00	-	0.0%
School for the Deaf and Blind	81.68	81.68	81.68	81.68	-	0.0%
Arts Council	7.00	7.00	7.00	7.00	-	0.0%
State Library Commission	29.90	29.90	30.50	30.50	0.60	2.0%
Historical Society	53.63	56.13	57.63	57.63	1.50	2.7%
<b>Total Section E</b>	<b>290.22</b>	<b>297.22</b>	<b>297.32</b>	<b>297.32</b>	<b>0.10</b>	<b>0.0%</b>
<b>Total - All Sections</b>	<b>10,426.60</b>	<b>10,426.96</b>	<b>10,874.11</b>	<b>10,915.69</b>	<b>488.73</b>	<b>4.7%</b>

\*Does not include the Montana University System.

## REORGANIZATIONS

One major and one minor reorganization will take place in the 2003 biennium that skew the individual agency totals. Figure 19 shows the impact of those reorganizations.

As shown, there is a net increase in state FTE as a result of the reorganization of 4.0 FTE, associated with the creation of the Office of Economic Development. Figure 20 shows the impact to the affected agencies if all changes due to reorganization are factored out. Fiscal 2001 has been adjusted to reflect the reorganization.

As shown, if reorganization is factored out, the Department of Commerce shows a net increase of 32.0 FTE (as discussed below, 31.5 FTE of this increase are due to an accounting change). For a further discussion of the Department of Commerce reorganization, see page 96 of this section.

**Figure 20**  
Impact of Commerce Reorganization  
2001 and 2003 Biennia

Department	Fiscal 2001	Fiscal 2003	Difference
Governor's Office	57.00	57.00	-
Administration	148.71	145.69	(3.02)
Livestock	141.49	144.49	3.00
Commerce	33.00	65.00	32.00
Labor and Industry	656.53	665.63	9.10

**Figure 19**  
Commerce/Crime Victims Reorganization  
Impact on FTE  
2003 Biennium

Reorganization/Agency	FTE Change
Commerce Reorganization	
Commerce*	(176.81)
Labor and Industry	103.03
Administration	67.00
Livestock	3.78
Governor's Office	7.00
Net Change in FTE	4.00
Crime Victims	
Board of Crime Control	(5.00)
Justice	5.00
Net Change in FTE	-

\*Total does not include 2.5 FTE reduced due to extended vacancy.

## MAJOR ACCOUNTING CHANGES

There are three primary accounting changes that impact the FTE increases shown:

1. within the Department of Revenue, the legislature reestablished funding for the Customer Service Center in HB 2. The center had been funded through a proprietary fund and was therefore not included in HB 2. This change added 123.7 existing FTE. In addition, 19.0 FTE were added when the legislature required that the Liquor function be appropriated in HB 2. This enterprise function was non-budgeted in the 2001 biennium;
2. within the Department of Commerce, 31.5 existing FTE were added when the Lottery, which is an enterprise fund that the legislature now requires have an appropriation, was added to HB 2; and
3. in the Department of Corrections, 15.0 FTE were taken off budget when the cook/chill was moved to a proprietary fund. The positions remain in state government.



In addition to these accounting changes, SB 184 changed the property reappraisal requirements in the Department of Revenue. The FTE to implement these requirements, which were added in the 2001 biennium, are not reflected in the fiscal 2001 totals, adding 21.0 FTE to that department's 2003 biennium totals.

## MAJOR CHANGES IN FTE

If the adjustments shown above are not included, the overall increase in FTE of 308.53 is concentrated in five areas.

- ?? The Department of Public Health and Human Services shows a net increase of 108.79 FTE due to a number of factors, including: 1) additional staff at the Montana State Hospital, Montana Developmental Center, and the Montana Veterans' Home; 2) additional adult and child protective services workers; and 3) staff to administer various state and federal programs
- ?? Net of a reduction of 15.0 FTE due to the change in funding for the cook/chill discussed above, the Department of Corrections increases primarily due to the maintenance by the legislature of most positions added during the interim by Governor Racicot, and due to expansion of the Montana Women's Prison
- ?? The increase in the Department of Transportation is primarily due to temporary winter maintenance and to assumption of secondary road maintenance from local government
- ?? The number of employees in the Judiciary increase for a variety of reasons, including the provision of 8.5 FTE to administer the district courts, 3.0 FTE law clerks, creation of an asbestos court, and new judges in Ravalli and Cascade Counties
- ?? The increase in staff in the Department of Fish, Wildlife, and Parks is due to a number of new or expanded programs

In addition to the major increases discussed above, certain FTE vacant for longer than seven months up to March 2001 were removed from the budget. Funding for these positions was not removed. However, the positions and associated funding will not be included in the present level budget for the 2005 biennium, and continuance of the positions must be requested in new proposals. Positions vacant for longer than seven months but exempted from the reduction include seasonal, recently filled, or new classified employees. Also exempted are other employees as determined by the legislature, including Department of Revenue auditors, certain direct care workers, and others. Figure 21 details the reductions.

Figure 21  
Impact of FTE Reduction  
2003 Biennium

Agency	FTE Reduction
Transportation	49.27
Revenue	2.03
Administration	4.84
Public Health and Human Services	9.26
Fish, Wildlife, and Parks	5.02
Environmental Quality	7.75
Livestock	1.00
Natural Resources and Conservation	9.27
Agriculture	1.00
Commerce	2.00
Justice	4.00
Public Service Regulation	0.50
Corrections	0.65
Labor and Industry	7.25
Office of Public Instruction	1.00
<b>Total</b>	<b>104.84</b>

## VACANCY SAVINGS

Vacancy savings is the difference between the cost of fully funding a position for the entire year and the actual cost of authorized employee positions during that period. A vacancy savings reduction, usually a percentage reduction from full funding, has been applied to budgets in prior years in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than appropriated.

### LEGISLATIVE VACANCY SAVINGS

The legislature imposed a vacancy savings rate on all personal services (including insurance) for all agencies except:

1. those with fewer than 20 FTE (with the exception of the Board of Crime Control, which was reduced to below 20 FTE during the session as a result of transfer of certain duties to the Department of Justice);
2. university system faculty; and
3. elected officials.

The 2003 biennium vacancy savings rate imposed totals 4 percent each year for all other programs with the following exceptions:

1. the State Tax Appeal Board at 20 percent each year, based upon historical experience;
2. State Personnel Division at 5 percent each year based upon historical experience;
3. the Agricultural Experiment Station and Extension Service in the Montana University System at 1.5 percent each year; and
4. the Judiciary, Public Service Commission, and School for the Deaf and Blind at 2 percent each year.

Total budget reductions as a result of the imposition of vacancy savings are about \$19.0 million general fund and \$23.1 million other funds over the 2003 biennium.

## **PERSONAL SERVICES CONTINGENCY**

Vacancy savings are assessed against personal services budgets on the assumption that actual vacancy savings will be sufficient to cover the reduction. Sometimes, agencies don't generate enough actual vacancy savings, resulting in a shortfall.

As also stated in the discussion on the 2003 biennium pay plan, in order to assist agencies that have insufficient authority to meet all personal services costs in the 2003 biennium, the legislature provided a contingency fund totaling \$1.3 million general fund and \$3.0 million other funds for executive branch agencies (including the university system) and the Judiciary, and \$200,000 general fund for the Legislative Branch. Executive branch agencies will have to apply to the Office of Budget and Program Planning for these funds during the 2003 biennium.

## PROPRIETARY FUNDS AND RATE SETTING

There are two types of proprietary funds: 1) internal service funds; and 2) enterprise funds. Internal service funds are used to account for "internal service" functions that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. Enterprise funds are used to account for "enterprise" functions that provide goods or services to the public on a user-charge basis. Examples of internal service funds are those collected by the Information Services Division of the Department of Administration for providing computer services to other agencies and those collected by the Central Stores program for providing various supplies to state agencies. An example of an enterprise fund is the state lottery. Since the 1997 biennium, the legislature has not appropriated proprietary funds to the program receiving the funds (except in cases where the proprietary funds are used as a part of a program that is not an enterprise or internal service function and otherwise requires an appropriation.)

In the past, the legislature appropriated internal service funds to the agency receiving the funds and simultaneously provided funding to the agencies that would pay the internal service functions for services received, which resulted in a double counting of the cost of providing internal service functions. To avoid this double-counting, the legislature no longer appropriates proprietary funds to the internal service functions receiving the funds, but instead sets the rates that the internal service functions may charge. Statute requires that rates be commensurate with costs and prohibits an internal service function from raising rates during the biennium. The legislature reviews enterprise functions and enterprise funds, but statute does not require that the legislature establish rates for enterprise functions. (SB 55 passed by the 1999 legislature requires that enterprise funds that transfer profits to the general fund or to an account subject to an appropriation must be appropriated by the legislature. The two enterprise accounts that currently fall under the requirement are the state lottery and liquor accounts.)

### 2003 BIENNIUM CHANGES IN PROPRIETARY FUNDS

The legislature changed accounting for several functions from budgeted to proprietary accounts in the 2003 biennium:

1. cook/chill in the Department of Corrections, including 15.0 FTE;
2. statewide Accounting, Budgeting, and Human Resource System (SABHRS) vendor maintenance costs in the Department of Administration (most SABHRS operating costs were already funded with a proprietary fund); and
3. personnel Unit of the Department of Administration, including 1.75 FTE.

The legislature also changed the Customer Service Center in the Department of Revenue from a proprietary to a budgeted fund, including 123.7 FTE. Only accounts receivable remains a proprietary fund.

### SUMMARY OF PROGRAMS/FUNCTIONS

The following Figure lists all internal service programs and/or functions for which the legislature established rates in HB 2, including those functions that are only charged to a single agency. The "Appropriations by Agency and Program" sections in Volumes 3 and 4 provide additional discussion of the rates for those functions providing multi-agency or statewide services. All approved rates are listed in section R in Volume 4, and within the individual agency narratives.

Figure 22  
Internal Services Functions  
2003 Biennium

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Agency/Program or Function

---

**Transportation**

Motor Pool  
Equipment

**Revenue**

Customer Service Center - Accounts Receivable

**Administration**

Accounting/Management Support  
Procurement and Printing  
Information Services, including SABHRS Operations  
General Services  
Central Mail  
Local Government Services  
Professional Development Center  
Payroll  
Personnel Unit  
State Employee Benefits  
Risk Management/Tort Defense

**Fish, Wildlife, and Parks**

Administration and Finance  
Capitol Grounds Maintenance  
Aircraft and Vehicle Usage  
Duplicating and Bindery

**Environmental Quality**

Central Management

**Natural Resources and Conservation**

Air Operations

**Commerce**

Board of Investments  
Director/Management Services

**Justice**

Agency Legal Services

**Corrections**

Corrections Enterprises  
Cook/Chill

**Labor and Industry**

Central Services Division  
Professional and Occupational Licensing

**Office of Public Instruction**

Centralized Services

**Montana University System**

MUS Group Insurance

## LONG-RANGE PLANNING SUMMARY

The 2001 Legislature approved \$156.6 million of grants, loans, and capital projects for Long-Range Planning (LRBP). Figure 23 summarizes the funding for each LRP program. In some instances in Figure 23, amounts shown reflect the funding available rather than the amounts appropriated or authorized for projects. For total appropriations or authorizations for these bills, see Figure 1 on page 71. More detailed information can be found in Section F of Volume 4 of this report.

Figure 23  
Legislative Action -- 2001 Session  
Long-Range Planning Programs

Bill #	Program	2003 Biennium (dollars in millions)							Total
		CPF	GF	SSR	FED	Other	GO Bonds	Loans	
HB 5	LRBP - Cash	\$5.490	\$ -	\$20.420	\$15.800	\$39.105	-	-	\$80.815
HB 14	LRBP - Bonds	-	-	-	-	-	25.025	-	25.025
HB 577	InformationTechnology - Dept. of Justice	-	-	-	-	-	-	5.620	5.620
HB 6	Renewable Resource Grant Program	-	-	4.826	-	-	-	-	4.826
HB 8	Renewable Resource Loan Program	-	-	-	-	-	-	15.927	15.927
HB 7	Reclamation & Development Grant Program	-	-	4.000	-	-	-	-	4.000
HB 11	Treasure State Endowment Program	-	-	13.872	-	-	-	-	13.872
HB 11	Treasure State Regional Water System Grants	-	-	2.358	-	-	-	-	2.358
HB 9	Cultural & Aesthetic Grant Program	-	0.524	0.408	-	-	-	-	0.932
HB 10	Oil Overcharge Program	-	-	-	0.231	-	-	-	0.231
HB 12	State Building Energy Conservation Program	-	-	-	-	-	3.000	-	3.000
Total		<u>\$ 5.490</u>	<u>\$ 0.524</u>	<u>\$ 45.884</u>	<u>\$ 16.031</u>	<u>\$ 39.105</u>	<u>\$ 28.025</u>	<u>\$ 21.547</u>	<u>\$ 156.606</u>

## LONG-RANGE BUILDING PROGRAM

Together, HB 5 and HB 14 authorized a total of \$105.8 million for 64 LRBP projects. HB 5 combines \$5.5 million of capital projects funds with \$75.3 million from other sources, for a total of \$80.8 million in cash funding for the LRBP. HB 14 approves capital projects to be funded with a total of \$25.0 million in general obligation (G.O.) bonds, all of which are to be retired with general fund money.

## INFORMATION AND TECHNOLOGY FINANCING

The executive requested bonding authority, in HB 15, in the amounts of \$878,850 for the Department of Justice (video gambling account system) and \$2.5 million for the Montana University System (PBS conversion to digital). Although HB 15 was not passed, these projects were ultimately included in HB 577, HB 5, and HB 14. In HB 577, the legislature authorized \$5.6 million of INTERCAP loans to be made from the Board of Investments to the Department of Justice. These funds are to pay for a video gambling accounting system and a system for the production and maintenance of motor vehicle title and registration records and driver's license records. The debt service for \$1.1 million of the loans will be paid from general fund in the HB 2 budget of Justice. The debt service for \$4.5 million will be paid from the \$4 increase in fees for filing any security interest or other lien against a motor vehicle. HB 5 and HB 14 both contain provisions that fund the upgrade of the public broadcasting system (PBS) from analog to digital formats. A total of almost \$5.0 million is authorized (\$1.9 million from the issuance of bonds and \$3.1 million from other cash sources).

## **RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS**

Two long-range building programs receiving interest earnings from the Resource Indemnity Trust (RIT) are: 1) the Renewable Resource Grant & Loan Program (RRGL); and 2) the Reclamation and Development Grant Program (RDGP).

### **Renewable Resource Grants and Loan Programs (RRGL)**

The biennial statutory allocation of RIT interest income for RRGL grants is \$4 million. Loans made under the RRGL are financed with bonds backed by coal severance tax revenue. The purpose of RRGL projects is “to enhance Montana’s renewable resources through projects that measurably conserve, develop, manage, or preserve resources (85-1-602, MCA). The 2001 legislature appropriated \$2.9 million of \$4.8 million for RRGL grants in HB 6 and authorized \$19.0 million for loans in HB 8.

### **Reclamation and Development Grant Program (RDGP)**

The RDGP was established to fund projects that: 1) repair, reclaim, and mitigate environmental damages to public resources from non-renewable resource extraction; and 2) develop and ensure the quality of public resources for the benefit of all Montana citizens. By statute, the RDGP receives \$3.0 million in RIT investment income to be used for grant awards. The 2001 legislature appropriated \$2.9 million of this amount, \$0.9 million from prior grants withdrawn by the Department of Natural Resources and \$0.2 million from additional interest revenues that were otherwise uncommitted.

## **TREASURE STATE ENDOWMENT PROGRAM**

The Treasure State Endowment Program (TSEP) is funded with investment earnings on the Treasure State Endowment Trust in accordance with section 90-6-701, MCA. The Treasure State Endowment Trust receives 75 percent of the coal severance tax revenues deposited into the coal severance tax permanent fund.

HB 11 authorizes \$13.7 million for 31 TSEP grants to local governments. In addition, \$0.2 million is authorized for one emergency at the City of Conrad for their drinking water system and an emergency fund for local governments that is managed by the Department of Commerce. Total TSEP authorized projects was \$13.9 million.

HB 11 authorizes \$2.4 million for the state’s share for regional water system projects. The two regional authorities authorized to use these funds are the “dry prairie rural water authority and the north central Montana regional water authority”.

## **CULTURAL AND AESTHETIC GRANT PROGRAM**

The Cultural and Aesthetic Grant Program, administered by the Montana Arts Council (MAC), is funded by the interest from a statutory trust that receives coal severance tax and general fund. The 2001 legislature authorized a total of \$0.9 million for the cultural and aesthetics projects in the 2003 biennium, \$0.4 million from interest earnings on the Cultural and Aesthetics Trust, and \$0.5 million from the general fund.

**OIL OVERCHARGE**

Oil overcharge funds are allocated to the state by the federal Department of Energy as a result of federal court action requiring certain oil producers to pay restitution for violation of federal oil price allocation controls that occurred between 1973 and 1981. These funds cannot be used to replace state funds and may only be used for programs authorized under federal law.

The majority of oil overcharge litigation is complete and most funds have been received. However, the Montana Department of Environmental Quality estimates there is at least \$230,730 available for the 2003 biennium.

**STATE BUILDING ENERGY CONSERVATION**

The State Building Energy conservation program (SBECF), operated by the Department of Environmental Quality (DEQ), was established by the 1989 legislature to reduce operating costs in state facilities by identifying and funding cost-effective energy efficiency improvement projects. Through this program, the state sells G.O. bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service.

HB 12 authorizes the Board of Examiners to issue up to \$3.0 million in G.O. bonds for SBECF. In addition, HB 12 grants DEQ a biennial appropriation of \$450,000 from the bond proceeds to fund analysis, design, and program administration. HB 12 also contains a \$100,000 reappropriation to DEQ of oil overcharge funds to be used for administrative purposes, which has a higher priority than any other appropriation of stripper-well payments during the 2003 biennium.



## FISCAL 2001 SUPPLEMENTAL APPROPRIATIONS

The legislature funded \$68.2 million general fund and \$44.7 million other funds in supplemental appropriations in fiscal 2001.

Figure 24  
General Fund Supplementals  
1987 to 2001 Biennia

Biennium	Millions
1987	\$32.7
1989	17.1
1991	20.4
1993	82.2
1995	19.9
1997	14.2
1999	11.5
2001	68.2

Figure 24 summarizes all supplemental appropriations funded since the 1987 biennium. As shown, supplemental appropriations in this biennium are the highest since the 1993 biennium, due primarily to fire costs (\$10.5 million state cost, \$22.7 million reimbursable), human services (\$15.9 million), and distribution to schools (\$10.4 million).

Figure 25 shows each appropriation, by agency and purpose. Following the table is a brief description of each. As shown, a large number of agencies for a wide purpose received supplemental appropriations in the 2001 biennium.

Governor's Office – Due to a changeover in staff as a result of the change in administration, the legislature provided funds for termination payouts to prior staff.

Department of Revenue – The legislature provided three separate appropriations to the department:

1. the state is engaged in legal action with the contractor responsible for the department's POINTS II contract. The legislature provided \$100,000 to the Director's Office for legal fees, which continues into the 2003 biennium;
2. because of difficulties with the new POINTS II computer system, the department will upgrade the current legacy system to allow property reappraisal to take place as scheduled. A supplemental appropriation was provided for this upgrade; and
3. the Customer Service Center was intended to provide revenue collection services for a number of state agencies. However, the department overestimated the number of agencies that would participate, and did not generate the revenue necessary to pay off all loans taken to establish the center. A supplemental appropriation was provided to pay off all loans. The legislature mitigated the cost of this supplemental by changing the funding of the Customer Service Center to a proprietary fund in the 2003 biennium and by making other reductions within the department.

Department of Public Health and Human Services – The legislature provided three supplemental appropriations to the department. The total increase (\$15.9) is a net of overruns and a number of general fund offsets, primarily through the use of Children's Health Insurance Program federal funds. For a further discussion, see the Health Policy and Services and Addictive and Mental Health Divisions in the Department of Public Health and Human Services, in Volume 3 of this report. The total supplemental request is the result of:

1. increases in the cost of Medicaid over anticipated levels, primarily due to an increase in the number of persons eligible for Supplemental Security Income (SSI) as a result of recent court cases;

2. increases in the cost of mental health services in three primary areas - Medicaid services, Mental Health Access Plan (the non-Medicaid mental health program), and Montana State Hospital - with a smaller amount due to over-runs at the Montana Mental Health Nursing Care Center; and
3. loss of a court judgment that requires the department to reimburse an individual for the inappropriate placement of a lien on assets.

Figure 25  
Supplemental Appropriations  
Fiscal 2001

Department/Program	General Fund	State Special	Federal Special	Other	Total
<b>Governor's Office</b>					
Executive Office - Employee Payouts	\$76,888	\$0	\$0	\$0	\$76,888
<b>Revenue</b>					
Director's Office	100,000	-	-	-	100,000
Compliance, Valuation, Resolution	219,100	-	-	-	219,100
Customer Services Center	2,700,000	-	-	-	2,700,000
<b>Public Health and Human Services</b>					
Health Policy and Services	4,437,807	-	11,965,517	-	16,403,324
Mental Health	11,399,341	-	32,549,140	-	43,948,481
Medicaid Court Judgment	21,545	-	-	-	21,545
<b>Natural Resources and Conservation</b>					
Fire Costs Net to State*	10,516,879	-	-	-	10,516,879
Fire Costs Reimbursable	22,707,695	-	-	-	22,707,695
<b>Justice</b>					
Central Services - Employee Payouts	41,632	11,593	-	892	54,117
Extradition of Prisoners	45,000	-	-	-	45,000
<b>Office of Public Instruction</b>					
Malta School District	21,009	-	-	-	21,009
Distribution to Schools	8,905,000	-	-	-	8,905,000
Distribution to Schools	1,517,800	-	-	-	1,517,800
<b>Historical Society</b>					
Museum - Scriver Collection	249,923	-	-	-	249,923
Library/Archives -	25,000	-	-	-	25,000
<b>Corrections</b>					
Secure Facilities	4,000,000	-	-	-	4,000,000
<b>Judiciary</b>					
Indigent Victims of Domestic Violence	-	175,000	-	-	175,000
<b>University System</b>					
Utility Cost Increases	1,200,000	-	-	-	1,200,000
<b>Total</b>	<u>\$68,184,619</u>	<u>\$186,593</u>	<u>\$44,514,657</u>	<u>\$892</u>	<u>\$112,886,761</u>

\*Consists of appropriations contained in both HB 3 and HB 17.

Department of Natural Resources and Conservation – the state does not typically provide an advance appropriation for costs of fire suppression. Instead, the Department of Natural Resources and Conservation pays these costs out of current operating appropriations and is reimbursed through a supplemental appropriation. The supplemental appropriation for fire costs in the 2001 biennium consists of two parts:

1. \$10.5 million (\$6.049 million of which was included in HB 17 and the remainder in HB 4) for costs of suppressing state responsibility fires that will not be reimbursed from any other source; and
2. \$22.7 million for all other fire costs for which the state is anticipating reimbursement. This reimbursement will increase general fund revenues to offset these expenditures and will come from two primary sources: 1) the Federal Emergency Management Agency (FEMA), which paid a significant share of the costs of wildfires; and 2) federal agencies for the costs Montana incurred fighting fires on federal land.

The state's total actual out-of-pocket cost for fire suppression in the 2001 biennium is estimated at \$15.6 million, which consists of the \$10.6 million appropriated in supplemental appropriations to the Department of Natural Resources and Conservation, and \$5.1 million statutorily appropriated from the Governor's emergency appropriation.

For a further discussion, see the Department of Natural Resources and Conservation narrative in Volume 4 of this report, page C-100.

Department of Justice – The legislature provided two appropriations to the department:

1. costs of termination payouts due to turnover caused by the change in administration; and
2. costs over the appropriated level for extradition and transportation of prisoners.

In the 2001 biennium, the management of extradition and transportation of prisoners program, which reimburses county sheriffs for allowable expenses associated with transporting prisoners to Montana detention centers and of extraditing prisoners to Montana, is conducted through the Governor's Office, while the Department of Justice pays bills as received. The 2001 legislature moved payment of costs to the Governor's Office in the fiscal 2003 biennium to consolidate all functions.

Office of Public Instruction – The legislature provided three separate supplemental appropriations to OPI:

1. schools are entitled to receive the income from certain sales of timber. Due to higher than anticipated timber sales (and revenue to the general fund), the Office of Public Instruction had insufficient authority to make all distributions as required by law. (The 2001 legislature changed the fund type into which these funds will now be deposited from general fund to state special revenue, and provided for the statutory appropriation of these funds.);
2. the BASE aid appropriations authority for the 2001 biennium was established by the 56<sup>th</sup> legislature in HB 2, SB 100, and HB 4 (May special session). The amounts authorized were based on estimates of the BASE aid components for each school district's budget, including estimates of taxable value and non-levy revenues. Because of legislated changes in these components, predictions of changes in districts' taxable value and districts' vehicle receipts were uncertain. Total costs were ultimately understated; and
3. the Malta school district was one of a number of schools that was ordered several years ago to pay back a portion of BASE aid received. While the Malta School District paid, the other districts appealed the decision and eventually prevailed. Funds were provided to reimburse the Malta School District for the funds they had earlier returned to the state.

Montana Historical Society – The Montana Historical Society received supplemental appropriations for two purposes:

1. the state received a large donation of artwork from the estate of Montana artist Bob Scriver. Additional funds were provided to store and begin cataloguing the collection; and
2. the Historical Society collects the archives of each administration. Due to the change, an appropriation was provided to store these archives.

Department of Corrections – The legislature provided an appropriation of \$4.0 million to fund cost overruns in the department. The additional costs were incurred primarily due to higher than anticipated incarceration (including contract beds) costs, exacerbated by the addition of staff and the provision of upgrades to existing and new staff during the interim not funded by the legislature. (In addition, \$1.0 million from the Office of Budget and Program Planning's personal services contingency account was allocated to this department to partially offset the additional personal services costs.) For a further discussion, see the narrative for the Department of Corrections in Volume 4, page D-56.

Judiciary – The 1999 legislature passed legislation providing that \$9 of the marriage dissolution fee be deposited to a state special revenue account and used to provide legal representation for indigent victims of domestic violence. However, no appropriation for this purpose was provided. This appropriation was made to allow the Judiciary to expend the funds that accumulated in the account in the 2001 biennium.

University System – The legislature provided additional funding to the Montana University System as a result of higher than anticipated energy costs.

Montana School for the Deaf and Blind - MSDB was given the authority to move personal services appropriations to operating expenses, primarily to address increased energy costs. No additional funds were appropriated.

## FEE CHANGES

The 2001 legislature enacted changes to fees (increases or decreases) and created new fees that will raise an estimated \$13.7 million in revenue over the 2003 biennium, and assumed tuition increases of \$14.5 million (5.6 percent each year), for total fee increases of \$28.2 million. (The Board of Regents subsequently approved higher tuition increases as discussed below.) The increased fee revenue, which will mostly be deposited in accounts other than the general fund, will be used to fund new and existing agency programs. Figure 26 lists 41 bills that contain fee changes. While this list of bills might not be complete because of the difficulty of sometimes defining what is a “fee”, it is a representative list of fee bills.

Figure 26  
2003 Biennium Revenue from New or Changed Fees

Bill Number and Short Title	New Change	Fiscal 2002	Fiscal 2003	Biennium
HB2/13 University tuition increases--amount assumed by Legislature	X	\$5,407,024	\$9,147,299	\$14,554,323
HB 69 Revise mining laws	X	15,865	15,490	31,355
HB 99 Repeal termination of separation of nonresident deer and elk license	X	(82,350)	(82,350)	(164,700)
HB 132 Revise laws on motorboat fee in lieu of tax	X	0	285,000	285,000
HB 141 Revise mint oil laws	X	(120)	(200)	(320)
HB 144 Statewide legislative proceeding broadcasting	X	0	60,000	60,000
HB 185 Revising the duration of, and removing termination of, youth comb. sports license	X	0	(137,950)	(137,950)
HB 247 Reduce the fee in lieu of tax on heavy veh. by 50% over a designated period (GF)	X	(263,279)	(263,279)	(526,558)
HB 313 Revise laws relating to domestic violence	X	250	1,250	1,500
HB 325 Revise the definition of a sailboat	X	(890)	(890)	(1,780)
HB 346 Repeal egg retailers license	X	(777)	(777)	(1,554)
HB 437 Require inspections of elevators and other devices for building code compliance	X	70,389	52,889	123,278
HB 499 Encourage use of recycled, postconsumer glass -- credit against fees	X	(50,400)	(50,400)	(100,800)
HB 531 Revise licensing for fertilizer spreader equipment	X	6,250	6,250	12,500
HB 539 Regulate auto title loan businesses	X	57,500	91,800	149,300
HB 542 Transfer duties for collecting surplus lines stamping fee	X	80,000	80,000	160,000
HB 554 Increase certain nonresident hunting and fishing fees	X	2,574,554	4,148,792	6,723,346
HB 577 Funding for information technology systems for Department of Justice	X	1,439,366	648,313	2,087,679
HB 620 Exempt purple heart veterans from light vehicle registration fees	X	(3,730)	(5,048)	(8,778)
HB 628 Require alternative dispute resolution for seed contract disputes	X	4,264	3,904	8,168
SB 31 Revise state trust land laws	X	5,000	5,000	10,000
SB 48 Clarify out-of-state direct shipment of alcoholic beverages to Montanans	X	21	84	105
SB 96 Revise waiting period for temporary total disability benefits - work comp	X	0	23,634	23,634
SB 107 Allow teleconferencing in mental health proceedings	X	7,200	7,200	14,400
SB 143 Increase pesticide and groundwater fees	X	225,365	225,365	450,730
SB 168 Increase junk vehicle fees	X	107,215	107,215	214,430
SB 191 Specialty license plate decals for organizations (GF)	X	0	160,000	160,000
SB 238 Increase out-of-state waterfowl license fee	X	0	112,950	112,950
SB 240 Remove termination for alternative oil recovery rates		0	(108)	(108)
SB 242 Prohibit extraterritorial building codes	X	100,925	151,950	252,875
SB 261 Legalize growing industrial hemp	X	5,192	4,918	10,110
SB 285 Revise conservation license laws	X	0	802,000	802,000
SB 288 Distribution of unused drugs to low income individuals	X	4,786	250	5,036
SB 334 Justice Department to contract for driver rehabilitation & improvement program	X	42,250	42,250	84,500
SB 358 Public access to traffic accident reports to compile data (GF)	X	31,391	27,891	59,282
SB 373 Licensing and regulation of captive insurers	X	20,000	20,000	40,000
SB 380 Revise length restrictions and fees for triple trailers	X	(6,628)	(6,628)	(13,256)
SB 393 Lewis & Clark bicentennial license plates to fund activities	X	534,000	1,066,000	1,600,000
SB 393 Lewis & Clark bicentennial license plates to fund activities (GF)	X	0	640,000	640,000
SB 448 Funding of transportation for senior citizens and persons with disabilities	X	171,093	347,318	518,411
Total		<u>\$10,501,726</u>	<u>\$17,737,382</u>	<u>\$28,239,108</u>

Most of the fee changes relate to state special revenue accounts, but a few are general fund or other funds. One significant change is the first item in the list relating to university tuition increases (\$14.6 million for the biennium) that was assumed by the legislature in establishing the level of funding provided to the universities in the general appropriations act (HB 2) and the state pay plan (HB 13). The Board of Regents subsequently approved increases of 13 percent each year of the biennium, for a total

of \$39.1 million, or \$24.6 million more than the legislature anticipated and shown in this table. Total tuition increases are discussed in detail in Volume 4, Section E, page E-93, under the Commissioner of Higher Education. Another significant revenue increase (\$6.7 million for the biennium) occurs from increases in nonresident hunting and fishing licenses fees in HB 554.

Figure 26 also shows the legislation imposing new or changed fees and anticipated revenue from each. Estimates for each bill are based upon fiscal notes for the bills. In some cases, no fiscal note was provided or the agency was unable to estimate the revenue changes that may result from the bills. In some instances, a fee change might result in lower state costs either because the fee was reduced or the fee is a less costly alternative.

Fee increases for larger accounts, such as the Department of Fish, Wildlife and Parks general license account, are discussed further in the individual agency sections in Volumes 3 and 4.

## LEGISLATIVE INTERIM STUDIES – SUMMARY

The Fifty-seventh Legislature adopted 17 joint resolutions calling for interim studies, in addition to three studies requested or required by House or Senate bills. The interim studies are listed in Figure 27, along with an indication of how each were assigned by the Legislative Council, at its May 2001 meeting. Of the 20 studies, 15 were assigned to various legislative interim committees, and two were not assigned. State agencies are being asked to conduct the remaining three studies.

While most of the assigned studies include significant fiscal issues, those most directly impacting fiscal policy and prospective legislative budget actions are the study of vacancy savings (HB 2), study of mental health managed care (HJR 1), review of local government revenue dedication laws (HB 162), study of school funding (HB 625), the study of health insurance and rising health care costs (SJR 22), and study of alternatives for funding fire suppression (HJR 42). The Legislative Finance Committee will conduct the first three of these studies. For additional details on each of these study resolutions and bills, see the discussion under “Other Legislation” in the Legislative Branch budget narrative, Section A, Volume 3, page A-1.

Figure 27  
Legislation Requesting or Requiring Studies  
2003 Biennium

Bill No.	Study Description	Legislative Council Assignment
HB 2	Study of vacancy savings	Legislative Finance Committee/LFD Staff
HB 625	Interim study of school funding	Education and Local Government Interim Committee
SB 162	LFC review of local government revenue dedication laws	Legislative Finance Committee/LFD Staff
HJR 1	Study mental health managed care	Legislative Finance Committee/LFD Staff
HJR 8	Study election reform	State Admin. and Veteran's Affairs Interim Committee
HJR 15	Study of community college laws	Did not assign
HJR 21	Study of mgmt of forest fuels w/air quality concerns regarding open burning	Environmental Quality Council
HJR 24	Study of annexation laws	Did not assign
HJR 27	EQC oversight for EIS on proposed coal-bed natural gas resources development	Environmental Quality Council
HJR 35	Study of prepaid college tuition	Education and Local Government Interim Committee
HJR 37	Study bicycle safety (re: highway planning, design, and use; driver ed./licensing)	Request Dept. of Transportation to conduct
HJR 39	Study of criminal statutes	Law and Justice Interim Committee
HJR 40	Interim study of use of pre-professional skills test (PPST) in teacher licensure	Request Board of Public Education to conduct
HJR 41	Study transfer of territory between school districts	Education and Local Government Interim Committee
HJR 42	Study alternatives for funding fire suppression	Environmental Quality Council
SJR 5	Study veteran's issues	State Admin. and Veteran's Affairs Interim Committee
SJR 6	Interim study of traffic codes	Request Dept. of Transportation to conduct
SJR 8	Study of foster care and adoption	Children, Families, Hlth & Human Svcs Interim Comm.
SJR 21	Interim study of non-agricultural land	Revenue and Transportation Interim Committee
SJR 22	Interim study of health insurance and rising health care costs	Economic Affairs Interim Committee

## HIGHWAYS SPECIAL REVENUE ACCOUNT

Projections for the highways state special revenue account (HSRA) indicate that expenditures from the account will exceed account revenues and the working capital balance would be depleted by the end of fiscal 2002. In this situation, the Department of Transportation would require short-term debt financing to meet its cash flow needs. Expenditures are expected to exceed revenues through the foreseeable future. Expenditures at the level appropriated by the legislature are expected to exceed revenues by nearly \$12.1 million during the 2003 biennium and the account is forecast to end the 2003 biennium with a deficit of more than \$6.4 million. At the current level of service, expenditures could exceed revenues by nearly \$6.8 million during the 2005 biennium.

Figure 28 shows the projected revenues, expenditures, working capital balance, and the estimated annual structural imbalance for the HSRA through fiscal 2005, using HJR 2 revenue estimates and assuming full expenditure of appropriations through fiscal 2003.

Figure 28 Highways State Special Revenue Account Projected Working Capital Analysis Fiscal 2000 - 2005 In Millions						
Component	Actual Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Beginning Working Capital Balance	\$49.0	\$23.5	\$5.6	(\$3.7)	(\$6.4)	(\$78.4)
Revenues	<u>219.1</u>	<u>215.4</u>	<u>215.1</u>	<u>217.6</u>	<u>220.2</u>	<u>222.9</u>
Available Working Capital	268.1	238.9	220.7	213.9	213.8	144.5
Authorized Expenditures	235.9	233.3	225.0	220.6	221.2	227.2
Adjustments and Impacts of Legislation (2001 Legislature)	(8.7)	0.0	0.6	0.2	(0.4)	(1.1)
Ending Working Capital Balance	<u>\$23.5</u>	<u>\$5.6</u>	<u>(\$3.7)</u>	<u>(\$6.4)</u>	<u>(\$7.8)</u>	<u>(\$83.8)</u>
Variance - Revenues less Expenditures	(16.8)	(17.9)	(9.3)	(2.8)	(1.4)	(5.4)

The imbalance between expenditures and revenues declines in fiscal 2003 when the final debt service payment is made on long-term debt incurred by the department in the 1980's. After the last debt service payment is made, annual expenditures will decrease by nearly \$14 million. Even with this expenditure reduction, expenditures are still projected to exceed revenues during the 2005 biennium. The primary cause for the continued imbalance is that the growth of expenditures exceeds the growth of revenues at the current level of service.

Three revenue sources – gasoline taxes, diesel taxes, and gross vehicle weight fees – provide roughly 97 percent of the revenues into the account. These three revenue sources rely on increased usage to provide revenue growth. Inflationary factors tend to have an inverse effect on increased usage. However, increased usage has a direct impact to increase expenditures, because as highways see more use, maintenance and construction costs tend to increase. Cost increases from increased use compound the cost increases from inflation to widen the imbalance between expenditures and revenues.

Given the declining financial condition of the account, the 2003 legislature may be faced with the need to either increase highway user fees or fuel taxes or to reduce the level of services provided for the state's transportation infrastructure. See the table and discussion of the HSRA in Volume 3, page A-63 of this report for additional information.



## RESOURCE INDEMNITY TRUST

The Montana Constitution (Article IX, Section 2) requires the existence of the Resource Indemnity Trust (RIT) and states, "The principal of the Resource Indemnity Trust shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000) guaranteed by the state against loss or diversion." After reaching the cap, the state may spend any trust balance over \$100 million. The account is projected to reach that level in the 2003 biennium as discussed in the "Legislation Changes" section that follows. The legislature provided for a distribution of the amount over the cap.

Currently, the trust receives 50 percent of the revenue from: 1) the resource indemnity and ground water assessment (RIGWA) tax paid by mineral producers; and 2) portions of oil and natural gas production taxes that are allocated for distribution under RIT statutes. The remaining taxes are deposited in accounts established for various purposes. Figure 29 shows the flow of RIT proceeds and interest to expenditure accounts in fiscal 2002, before the trust reaches \$100 million.

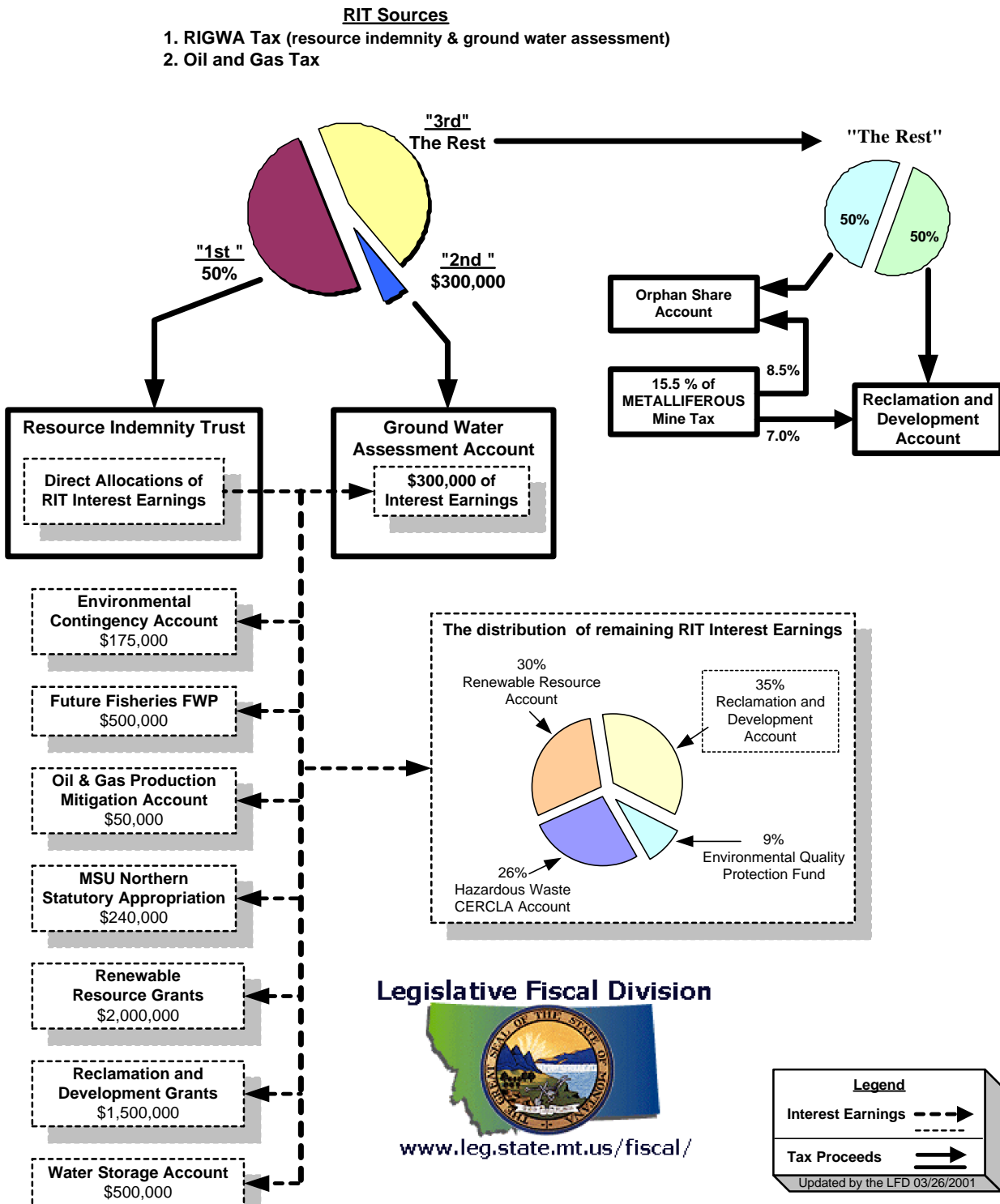
After the RIT reaches \$100 million, which is anticipated to occur in fiscal 2002, the distribution of RIGWA and oil and gas tax proceeds will change beginning in fiscal 2003. For a further discussion, see the "Legislative Changes" section on page 129.

## TRUST INTEREST

The constitution does not restrict the spending of interest from the RIT. For the 2003 biennium, statute allocates \$9.8 million of the interest for eight purposes. After the direct allocations are made, any interest remaining is allocated as follows:

1. 30 percent to the renewable resource account;
2. 35 percent to the reclamation and development account, which also receives portions of the RIGWA and metalliferous mines tax proceeds;
3. 26 percent to the hazardous waste/CERCLA account; and
4. 9 percent to the environmental quality protection fund.

**Figure 29**  
**Flow of RIT Taxes & Interest Proceeds, Fiscal 2002**  
(Prior to the RIT reaching \$100 Million)



The four accounts, along with other income, are appropriated by the legislature in HB 2 to fund operational costs of six agencies. Figure 30 shows the flow of interest allocations from the RIT in fiscal 2003.

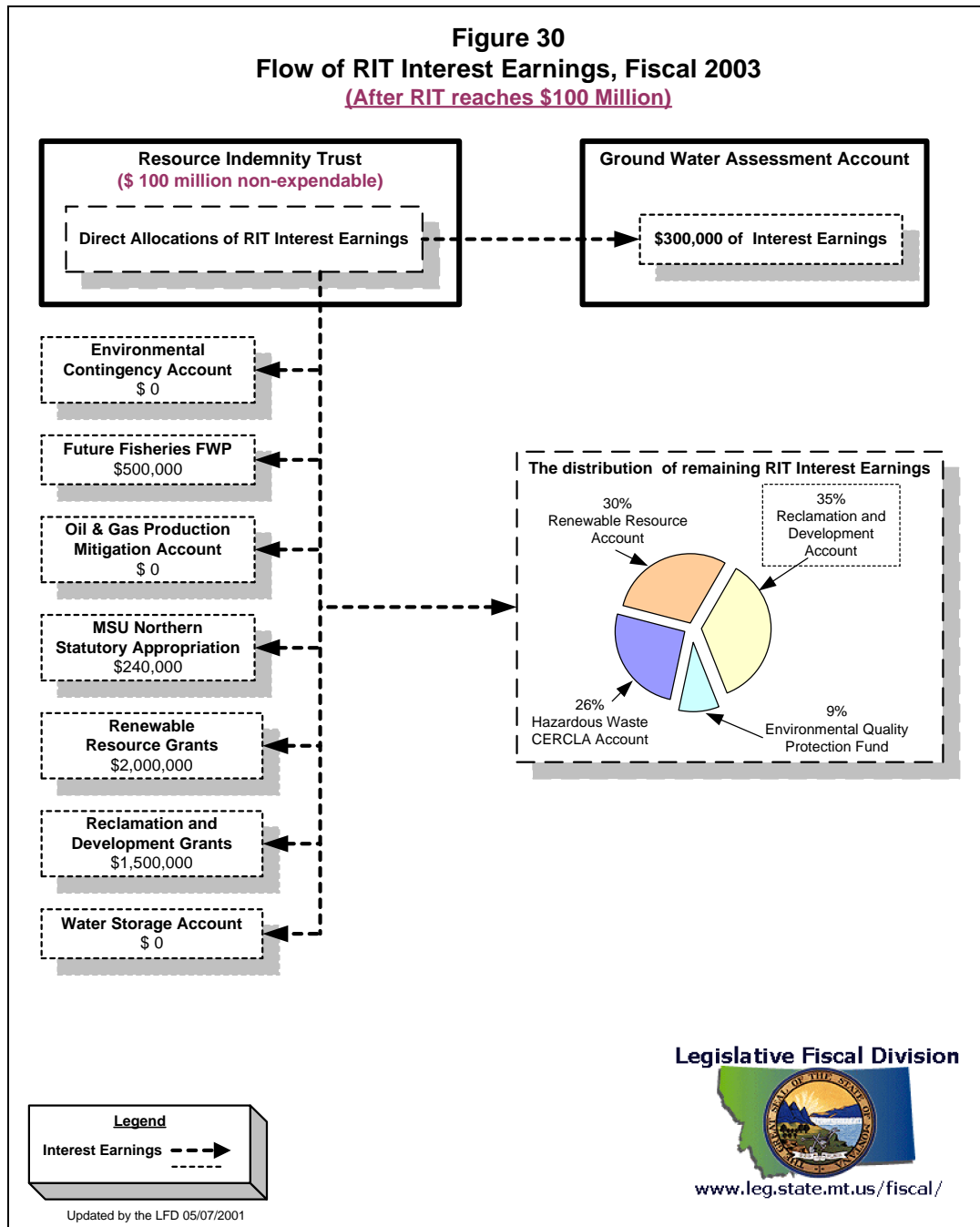


Figure 31 shows four elements of RIT. The first and second elements show the RIT revenues and trust balance for the past four fiscal years and Revenue and Taxation Committee (RATC) projections for fiscal years 2001, 2002, and 2003. Based upon RATC estimates, the trust balance will be \$99.6 million in fiscal 2001 and will be \$101.1 million in fiscal 2002. Since the trust will not receive any further annual distributions after the year it tops \$100.0 million, the trust balance will remain at \$101.1 million at the end of fiscal 2002. However, the legislature appropriated funds in excess of \$100 million. Spending of this excess will begin in fiscal 2003.

The third element shows the amount of interest generated by the RIT and the amounts that are allocated by statute for specific purposes in the 2003 biennium. As shown, allocations to accounts that receive a portion of the tax will increase in fiscal 2003 when tax revenues are no longer deposited to the trust. The fourth section shows seven main accounts that receive RIT interest and other revenues. Calculations are shown for each account to determine available fund balances at the beginning of fiscal 2002, a list of revenue sources, and a list of appropriations as approved by the legislature.

The revenue figures for fiscal 2000 are overstated. Accounting errors resulted in revenue estimates being approximately \$1.8 million too high in fiscal 2000. The Legislative Fiscal Division received a reconciliation of adjustments made by the Department of Revenue to remedy the problem. Because fiscal 2000 is closed for accounting purposes, accounting rules dictate that a prior period adjustment be made in fiscal 2001. Consequently, the fiscal 2001 figure is understated to compensate for the overstatement in fiscal 2000.

**Figure 31**  
**Resource Indemnity Trust (RIT): Proceeds, Interest Earnings, and Related Expenditure Accounts**  
**2003 Biennium Projections (Prior to and after the RIT Reaches \$100 Million)**

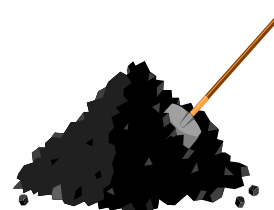
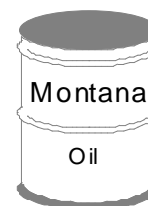
<b>1</b>	<b>RIT Revenues (RATC estimates)</b>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
	RIGWAT Coal, Oil, Natural Gas Proceeds	\$1,431,779	\$997,607	\$900,648	\$3,396,285	\$1,570,000	\$1,452,000	\$0
	RIGWAT Error Adjustments	0	0	0	0	(1,841,653)	0	0
	Legislative Changes -- Weeds (\$500K), Water Treatment (\$540K)						0	(1,040,000)
	Legislative Changes -- Subdivisions, Cons. Dist., Irrigation grants						0	(16,874)
	Total Deposits	\$1,431,779	\$997,607	\$900,648	\$3,396,285	(\$271,653)	\$1,452,000	(\$1,056,874)
	Trust Balance (\$100 million floor)*	\$94,581,987	\$95,579,594	\$96,480,242	\$99,876,527	\$99,604,874	\$101,056,874	\$100,000,000

<b>2</b>	<b>Total RIGWA Tax (RATC estimates)</b>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Biennium Total</u>
	Statutory Allocations	\$3,140,000	\$2,904,000	\$2,809,000	\$5,713,000
	Reclamation & Development-50% of rest (02458)	635,000	576,000	1,221,500	1,797,500
	Groundwater Assessment Account-direct (02289)	300,000	300,000	366,000	666,000
	Renewable Resources Account-0% (02272)	0	0	0	0
	Orphan Share Account-50% of rest (02472)	635,000	576,000	1,221,500	1,797,500
	Resource Indemnity Trust-50% (09003)	<u>1,570,000</u>	<u>1,452,000</u>	<u>0</u>	<u>1,452,000</u>
	Total Allocations	\$3,140,000	\$2,904,000	\$2,809,000	\$5,713,000

<b>3</b>	<b>RIT Interest Earnings (RATC estimates)</b>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Biennium Total</u>
	Priority Statutory Allocations of Interest	\$7,467,000	\$7,582,000	\$7,609,000	\$15,191,000
	Environmental Contingency Account (02107)**	0	(175,000)	0	(175,000)
	Oil & Gas Prod. Damage Mitigation Account (02010)***	0	(50,000)	0	(50,000)
	Water Storage Account (02216)	0	(500,000)	0	(500,000)
	Groundwater Assessment Account-direct (02289)	(300,000)	(300,000)	(300,000)	(600,000)
	MSU-Northern Statutory Appropriation (02272)	(240,000)	(240,000)	(240,000)	(480,000)
	Fish, Wildlife, and Parks -- Future Fisheries	0	(500,000)	(500,000)	(1,000,000)
	Renewable Resource Grant & Loan Program (02272)	(2,000,000)	(2,000,000)	(2,000,000)	(4,000,000)
	Reclamation & Development Grants (grants) (02458)	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(3,000,000)</u>
	Total Allocations	(\$4,040,000)	(\$5,265,000)	(\$4,540,000)	(\$9,805,000)
	Amount Available for Further Distribution	\$3,427,000	\$2,317,000	\$3,069,000	\$5,386,000



4 Related Expenditure Accounts (2003 biennium totals)	Figure 31 (Continued)						
	Renewable Resource (02272)	Reclamation & Development (02458)	Hazardous Waste/CERCLA (02070)	Environmental Quality Protect. (02162)	Groundwater Assessment (02289)****	Water Storage (02216)	Orphan Share (02472)
Further Distribution % of RIT Interest	30%	35%	26%	9%	0%	0%	0%
Beginning Fiscal 2001 Fund Balance (SABHRS)	\$3,089,373	\$3,299,722	\$1,003,164	\$692,078	\$255,033	\$618,532	\$3,162,681
Continuing appropriations	(3,219,636)	(3,061,668)	(3,676)	0	0	(167,866)	(500,000)
Credit for Unfinished Projects		900,000					
Reserved for long-term assets (outstanding loans)	(459,773)					(1,478,814)	
Reserved for long-term advances							
Fiscal 2001 appropriations	(1,453,924)	(1,704,881)	(866,148)	(841,735)	(656,000)	0	(539,308)
Fiscal 2001 adjustments -- Revenue Error Adjustments	(750,862)	(1,744,963)	(308,146)	(100,677)	0	0	(918,932)
Fiscal 2001 revenues (RATC, agency estimates)	<u>3,668,363</u>	<u>3,824,800</u>	<u>925,020</u>	<u>884,100</u>	<u>600,000</u>	<u>117,120</u>	<u>1,282,425</u>
Available Fund Balance Beginning FY2002	\$873,542	\$1,513,011	\$750,214	\$633,766	\$199,033	(\$911,027)	\$2,486,867
Revenues (RATC, agency estimates)							
RIT Interest-direct	\$4,480,000	\$3,000,000			\$600,000	\$500,000	
RIT Interest-further allocation by above %	1,615,800	1,885,100	1,400,360	484,740			
RIGWAT Proceeds		1,797,500			666,000		1,797,500
Metal Mines Tax (7%, 8.5%)		1,117,480					1,356,940
Leg. Changes 02458 -- HB572, 02458 -- HB 572, SB 322, SB 484		(200,000)					(1,017,250)
Sweep of Excess Coal Tax & Interest (from 04011)	120,000						
STIP/Other Interest	160,000		68,000	22,000		10,000	92,000
Cost Recoveries				480,000			
Administrative Fees	26,000					9,000	
State-owned Project Revenue	-	-	-	-	-	225,400	
Total Revenues	\$6,401,800	\$7,600,080	\$1,468,360	\$986,740	\$1,266,000	\$744,400	\$2,229,190
Executive Appropriations							
House Bills 6 and 7 Grants	\$4,000,000	\$4,700,741					
House Bill 6-Emergency/Private Grants	225,000						
MSU-Northern (statutorily appropriated)	480,000						
UM-Bureau of Mines					\$1,266,000		
DNRC-Conservation and Resource Devel. Division	682,647	1,264,205					
DNRC-Water Resources Division						500,000	
DEQ-Planning, Prevention & Assistance			\$319,593				
DEQ-Enforcement		10,551		9,655			
DEQ-Remediation			500,275	1,744,839			3,552,003
DEQ-Permitting & Compliance		2,968,285	1,056,094				
Governor's Office-Flathead Basin Commission	99,020						
Judiciary-Water Court	1,348,650						
Library Commission-NRIS	379,056	335,467					
House Bill 13	<u>12,615</u>	<u>90,686</u>	<u>42,613</u>	<u>38,707</u>	-	-	-
Total Appropriations	\$7,226,988	\$9,369,935	\$1,918,575	\$1,793,201	\$1,266,000	\$500,000	\$3,552,003
<b>Projected 2003 Biennium Ending Balance</b>	<b>\$48,354</b>	<b>(\$256,844)</b>	<b>\$299,999</b>	<b>(\$172,695)</b>	<b>\$199,033</b>	<b>(\$666,627)</b>	<b>\$1,164,054</b>
* Does not include unrealized investment gains or losses							
** The governor must report on the expenditures from the environmental contingency account in the executive budget. Expenditures are statutorily appropriated.							
*** Amounts are deposited to the oil & gas production damage mitigation account to bring the balance up to \$200,000 (82-11-161,MCA). All money in the account is statutorily appropriated.							
**** Amounts are deposited to the groundwater assessment account to bring the balance up to \$666,000. Any excess goes to the RIT trust (85-2-905, MCA).							

## FUND BALANCES

Of the seven funds that derive income from the RIT, three are projected to have negative ending fund balances and four are projected to have positive ending fund balances. The water storage fund is projected to have a negative \$666,627 balance. An incorrect estimate of the amount of cost recovery in the environmental quality protection fund will bring the estimated ending balance in that fund to a negative \$172,695 at the end of the 2003 biennium.

## LEGISLATIVE CHANGES - RIT

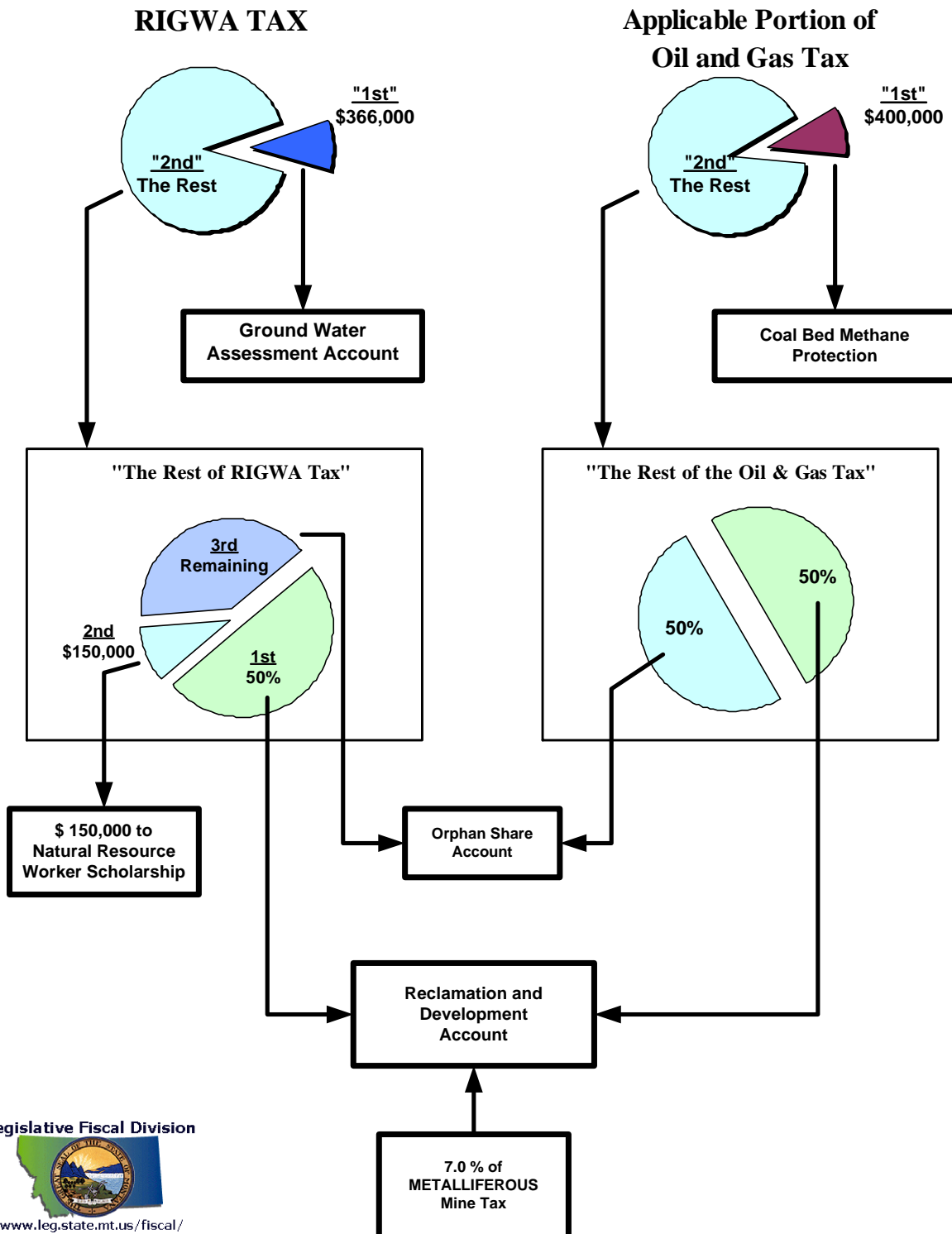
Based on the Revenue and Taxation Committee estimates, the trust should exceed the \$100 million threshold during fiscal 2002. When this occurs, the RIT will no longer receive any revenue. Because of newly enacted legislation, several changes in the distribution of resource indemnity and groundwater

assessment taxes (RIGWA) and oil and gas taxes will occur. In previous biennia, these taxes were combined and distributed according to 15-38-106, MCA. The following are descriptions of the main changes that occur after the trust is certified to be \$100 million:

- ?? HB 572 clarifies the distribution of oil and natural gas production taxes by creating a coal bed methane protection account. In addition, the bill creates a coal bed methane protection program to compensate landowners and water rights holders for damage caused by the development of coal bed methane. As a result of this bill, oil and gas taxes (15-36-324, MCA) will no longer be distributed in the same manner as RIGWA taxes (15-38-106, MCA). Instead, HB 572 requires that \$400,000 be allocated to the coal bed methane protection fund each fiscal year. After that, remaining oil and gas taxes allocated for RIT purposes will be split equally with 50 percent going to the reclamation and development account and 50 percent going to the orphan share account.
- ?? SB 322 creates a natural resource workers' education program that provides tuition scholarships for natural resource workers unemployed due to a closure or a permanent reduction in force. The scholarships will provide education or re-training for a maximum of two years. Like distributions in previous biennia, a portion of RIGWA tax is allocated to the groundwater assessment account (\$366,000 in fiscal 2003). The bill then incorporates a distribution of 50 percent of the remaining RIGWA tax to the reclamation and development account. Next, a distribution of up to \$150,000 is made to the natural resource workers tuition scholarship account. Finally, all remaining RIGWA proceeds are deposited to the orphan share account. In past biennia, RIGWA taxes were combined with oil and gas taxes and distributed under 15-38-106, MCA. This bill also modifies that statute to clarify that these are exclusively RIGWA tax distributions.
- ?? In past biennia, the orphan share account received an 8.5 percent distribution from the metalliferous mines license tax and the reclamation and development account received a 7 percent distribution. SB 484 creates a hard rock mining reclamation debt service fund and authorizes the Board of Examiners to issue general obligation bonds of up to \$8.0 million for the purpose of hard rock mine reclamation. The bill funds the account with 8.5 percent of the metalliferous mines license tax by re-directing the portion that went into the orphan share account. The 7 percent distribution remains the same. This bill is effective July 1, 2002.
- ?? Upon certification that the trust has reached \$100 million, any excess money in the trust has been appropriated by the legislature. In order of priority, the legislature appropriated: 1) \$0.5 million for weed control in SB 326; 2) \$0.54 million to the Department of Environmental Quality to purchase a zero coupon bond for water treatment at the former Zortman and Landusky mines; 3) \$120,000 for the Clark Fork River Basin study; and 4) any remaining cash left in the fund allocated two-thirds for conservation grants and one-third to irrigation grants in the Department of Natural Resources and Conservation, all in HB 2.

Figure 32 shows the flow of RIGWA and oil and gas taxes as they related to the RIT after the trust reaches \$100 million in fiscal 2003.

**Figure 32**  
**Flow of RIGWA and Oil & Gas Tax Proceeds Fiscal 2003**  
*(after the RIT reaches \$100 Million)*



After legislative action, the reclamation and development fund is projected to end the 2003 biennium with a negative \$256,844 balance. The primary reasons for the negative ending balance are: 1) the legislature approved funding from the account for an FTE to serve as a central contact person for developing regional water systems of the state; 2) the legislature approved a funding switch reducing general fund expenditures in the Conservation and Resource Development Division and replacing them with funding from the reclamation and development fund; and 3) \$200,000 that would have otherwise gone into reclamation and development has been directed to the coal bed methane account, established through HB 572.

In contrast, the orphan share fund is projected to have a positive ending fund balance of \$1.2 million. Even though the orphan share fund is projected to have a positive ending fund balance, legislative changes will affect revenue going into the fund. Similar to the reclamation and development fund, orphan share will not have \$200,000 that will be re-directed into the coal bed methane account established through HB 572. SB 322 creates a natural resource workers' education fund using up to \$150,000 each fiscal year that would have gone into the orphan share fund. Finally, the orphan share fund no longer receives an 8.5 percent distribution from the metalliferous mines license tax. Instead, that money has been re-directed into a hard-rock debt service fund established in SB 484. Through these changes, it is estimated that the orphan share fund will receive \$1.1 million less in revenue in the 2003 biennium. For a further discussion of the RIT, see Volume 3 of the Fiscal Report beginning on page C-102.



## COMBINED COAL TAX ACCOUNT

The 1995 legislature passed Senate Bill 83 that, among other things, combined five allocations of the coal severance tax (totaling 8.36 percent) into one 8.36 percent allocation, eliminating the five separate accounts. The revenue from this allocation is deposited into one account from which the legislature provides appropriations for the five uses. Consequently, each of the five uses may receive more or less money than the prior statutory allocations. Figure 33 shows these uses and the amounts appropriated by the legislature for each. By statute, any unreserved fund balance in the account at fiscal year end is transferred to the general fund. Based on legislative estimates contained in HJR 2, this amount will total \$40,279 for the 2003 biennium. The appropriated uses are discussed in more detail in the relevant agency discussion in the agency section in Volumes 3 and 4.

Figure 33 Combined Coal Tax Account 2003 Biennium			
	Fiscal 2002	Fiscal 2003	Biennial Total
<u>Revenue Estimates</u>			
8.36% of Coal Severance Tax	\$2,831,000	\$2,827,000	\$5,658,000
<u>Uses</u>			
	<u>Legislative Appropriations</u>		
Growth Through Agriculture (Agriculture)	\$386,476	\$386,473	\$772,949
Local impacts-Coal Bd. (Commerce)	1,201,084	1,262,978	2,464,062
County land planning (Commerce)	198,693	198,693	397,386
Conservation districts (DNRC) *	757,435	657,435	1,414,870
Library services (State Library)	<u>284,227</u>	<u>284,227</u>	<u>568,454</u>
Total appropriations	<u>\$2,827,915</u>	<u>\$2,789,806</u>	<u>\$5,617,721</u>
Minimum transfer to the general fund	\$3,085	\$37,194	\$40,279
* \$100,000 is a biennial appropriation			

